

Bui, Kim (2019) The Role of State-Owned Enterprises in Chinese Cross-Border Mergers & Acquisitions : An Institutional Perspective. PhD thesis. SOAS University of London. <http://eprints.soas.ac.uk/32464>

Copyright © and Moral Rights for this thesis are retained by the author and/or other copyright owners.

A copy can be downloaded for personal non-commercial research or study, without prior permission or charge.

This thesis cannot be reproduced or quoted extensively from without first obtaining permission in writing from the copyright holder/s.

The content must not be changed in any way or sold commercially in any format or medium without the formal permission of the copyright holders.

When referring to this thesis, full bibliographic details including the author, title, awarding institution and date of the thesis must be given e.g. AUTHOR (year of submission) "Full thesis title", name of the School or Department, PhD Thesis, pagination.

# Abstract

Cross-border mergers and acquisitions (M&As) by Chinese enterprises have played a crucial role in China's expansion in the global economy. Thanks to the impressive internationalization of Chinese enterprises, China has become a major player in the world's cross-border M&A market. Although there has been a growing body of research investigating the motivations for Chinese cross-border M&A, most studies have overlooked the China-specific mechanism of cross-border M&As undertaken by its state-owned enterprises (SOEs). This thesis aims to fill this important gap.

Building on a political economy analysis, descriptive data exploration, and in-depth elite interviews with an emphasis on the institutional perspective, this thesis contributes to existing research by providing a new framework for conceptualizing the role of the informal and formal institutions in shaping the specific features of Chinese SOEs' cross-border M&As. This thesis reveals a number of important findings. First, the political economy analysis highlights the concept of national rejuvenation as the key element of China's informal institution. This informal objective has been formally institutionalized and can be observed through national policies and regulation. Second, the descriptive data analysis shows evidence of the directive from the state on the regional and industrial distribution of cross-border M&As by Chinese SOEs. Third, the in-depth interviews with China M&A experts confirm the top-down command where the objective of national rejuvenation is to be pursued by SOEs and SOE managers through cross-border M&As.

The informal objective of national rejuvenation has been institutionalized, and through formal control mechanisms the state ensures that the objective of national rejuvenation is collectively shared among the state, SOEs, and SOE managers. The policy implications derived from this research reveal, the state implemented systems to regulate cross-border M&A activities that SOEs and SOE managers are expected to closely follow can be simplified to increase efficiency. The number of bureaucratic formalities can be reduced, as well as streamlining the M&A process, and delegating greater autonomy to SOEs and SOE managers.

# **The Role of State-Owned Enterprises in Chinese Cross-Border Mergers & Acquisitions: An Institutional Perspective**

Kim Bui

Thesis submitted for the degree of PhD

2019

School of Finance and Management  
SOAS, University of London

# Acknowledgements

I wish to acknowledge the unfaltering guidance, encouragement, dedication, and mentorship of my supervisor Dr. Eunsuk Hong throughout the journey of writing this thesis. Most of all, I would like to thank Eunsuk for his unyielding persistence in pushing me to my intellectual limits, without which the completion of this thesis would not have been possible.

I would also like to express my deepest gratitude to the following people, all of whom have made significant contributions to this research:

To my brilliant and generous interview participants, I wish to thank each of you for your instrumental contributions to this thesis. Your rich insight is at the heart of this research.

To my parents and my three older brothers. Their unrivalled work ethic instilled the necessary drive and discipline needed to complete this thesis.

To my best friends Zan and Sabrina, thank you both for being so incredibly encouraging from the beginning of this long journey.

The completion of this thesis could not have been possible without the support of my husband, Max. The pillar of strength he has provided me throughout writing this research is beyond anything imaginable. In expressing my gratitude, I would like to dedicate this thesis to Max, to whom I owe everything.

The experience of writing this thesis has been the most intellectually enriching and personally gratifying of my life; thus finally, I wish to thank SOAS for the opportunity to undertake this research and to complete my studies.

# Table of Contents

<b>CHAPTER 1 INTRODUCTION .....</b>	<b>1</b>
1.1 MOTIVATION FOR THIS RESEARCH: HETEROGENEOUS PATTERN OF CROSS-BORDER MERGERS AND ACQUISITIONS (M&As) BY STATE-OWNED ENTERPRISES (SOEs) VS. NON-SOEs IN CHINA ..	1
1.1.1 <i>Application of the institutional theory in the China context: Gaps in the literature and contextualization of this research .....</i>	4
1.2 AN INSTITUTIONAL APPROACH TO THIS RESEARCH .....	5
1.2.1 <i>Institutionalization of informal institution into formal institution, Chinese style .....</i>	7
1.2.2 <i>An institutional perspective in the context of cross-border M&amp;A by Chinese SOEs .....</i>	8
1.3 RESEARCH QUESTIONS AND OBJECTIVES .....	11
1.4 METHODOLOGICAL ISSUES CONDUCTING THIS RESEARCH .....	12
1.5 STRUCTURE OF THESIS .....	13
 <b>CHAPTER 2 THE ROLE OF THE STATE AND SOES IN CHINESE CROSS-BORDER M&amp;A ACTIVITIES: A CONTEXTUAL ANALYSIS .....</b>	<b>15</b>
2.1 INTRODUCTION .....	16
2.2 THE FORMAL INSTITUTIONAL FOUNDATION .....	17
2.2.1 <i>State-owned enterprises (SOEs) as a major organizational agent.....</i>	17
2.2.2 <i>Cross-border M&amp;A related policies in China .....</i>	19
2.3 THE DYNAMICS OF CROSS-BORDER M&A BY CHINESE SOEs: DESCRIPTIVE DATA ANALYSIS	28
2.3.1 <i>Data screening methodology.....</i>	28
2.3.2 <i>Geographical distribution by the target region.....</i>	28
2.3.3 <i>Geographical distribution by target country.....</i>	34
2.3.4 <i>Industry distribution of Chinese SOEs' cross-border M&amp;A.....</i>	38
2.4 CONCLUSION .....	43
 <b>CHAPTER 3 LITERATURE REVIEW AND THEORETICAL BACKGROUND: THE FORMAL AND INFORMAL INSTITUTIONS AND THE DYNAMIC INTERACTIONS IN THE CONTEXT OF CHINA .....</b>	<b>46</b>
3.1 INTRODUCTION .....	47
3.2 CONVENTIONAL MOTIVATIONS FOR CROSS-BORDER M&A .....	48
3.2.1 <i>Economies of scale and scope.....</i>	48
3.2.2 <i>Capability upgrades.....</i>	49
3.2.3 <i>Market access and local distribution networks.....</i>	50
3.2.4 <i>Limitations to the existing literature on cross-border M&amp;A motivations.....</i>	54
3.3 A CRITICAL REVIEW OF THE LITERATURE ON CROSS-BORDER M&A MOTIVATIONS IN THE CONTEXT OF CHINA.....	55
3.4 LIMITATIONS OF EXISTING RESEARCH ON CROSS-BORDER M&As BY CHINESE SOEs.....	64
3.5 THE CONCEPT OF THE INSTITUTION .....	68
3.5.1 <i>Origins of the institutions.....</i>	68
3.5.2 <i>Extended application to management studies .....</i>	69
3.6 TYPES OF INSTITUTIONS.....	71
3.6.1 <i>Formal institution.....</i>	71
3.6.2 <i>Informal institution.....</i>	72
3.7 RELATIONSHIP BETWEEN THE FORMAL & INFORMAL INSTITUTION .....	74

3.7.1 Interaction between the formal and informal institution at the individual level .....	74
3.7.2 Interaction between the formal and informal institution at the organizational level.....	76
3.7.3 Interaction between the formal and informal institution at the national level.....	77
3.8 APPLICATION OF THE FORMAL AND INFORMAL INSTITUTIONS AND THE DIRECTION OF THE INTERACTIONS IN THE CHINA CONTEXT .....	78
3.8.1 The informal institutional foundation in the China context.....	79
3.8.2 Interaction between the formal and informal institutions at the national level: The central government.....	83
3.8.3 Interaction between the formal and informal institutions at the organizational level: SOEs .....	87
3.8.4 Interaction between the formal and informal institutions at the individual level: Top-level managers in SOEs.....	91
3.9 CONCLUSION .....	93
 <b>CHAPTER 4 RESEARCH METHODOLOGY .....</b>	<b>96</b>
4.1 INTRODUCTION .....	97
4.2 RESEARCH APPROACH AND PHILOSOPHIES .....	97
4.2.1 Inductive approach.....	97
4.2.2 Ontological and Epistemological considerations: An interpretivist approach.....	98
4.3 QUALITATIVE RESEARCH DESIGN: GROUNDED THEORY.....	100
4.4 DATA COLLECTION STRATEGY .....	102
4.4.1 Primary data collection: Qualitative Semi-structured interviews .....	102
4.4.2 Schedule of prepared interview questions.....	104
4.4.3 Access and selection of interview participants.....	106
4.4.4 The Chatham House Rule.....	109
4.4.5 Interview consent.....	111
4.4.6 Transcription.....	111
4.5 DATA ANALYSIS .....	113
4.5.1 Computer-assisted analysis .....	113
4.5.2 Coding process for grounded theory data analysis .....	113
4.5.3 Theoretical Saturation .....	122
4.6 ISSUES SURROUNDING QUALITATIVE RESEARCH .....	126
4.6.1 Internal validity .....	126
4.6.2 Reflexivity.....	128
4.6.3 Reliability.....	129
4.7 CONCLUSION .....	130
 <b>CHAPTER 5 FINDINGS.....</b>	<b>133</b>
5.1 INTRODUCTION .....	134
5.2 KEY FINDINGS ON RESEARCH QUESTION 1 .....	136
5.2.1 Research area 1: Collective belief of national rejuvenation at all levels of society.....	136
5.2.2 Research area 2: The direction of the institutionalization process.....	138
5.3 KEY FINDINGS ON RESEARCH QUESTION 2 .....	143
5.3.1 Research area 3: The formal institutionalization of the informal belief at the national level.....	144
5.3.2 Research area 4: Interaction between the national level and the organizational level in the formal institution .....	149
5.3.3 Research area 5: Interaction between the national level and the individual level in the formal institution:.....	155

5.4 CONCISE SUMMARY OF KEY FINDINGS .....	159
5.5 CONCLUSION .....	162
<b>CHAPTER 6 DISCUSSION .....</b>	<b>164</b>
6.1 INTRODUCTION .....	165
6.2 DISCUSSION ON RESEARCH QUESTION 1 .....	165
6.2.1 <i>Research area 1: Collective belief of national rejuvenation at all levels of society</i> .....	165
6.2.2 <i>Research area 2: The direction of the institutionalization process</i> .....	167
6.3 DISCUSSION OF RESEARCH QUESTION 2 .....	173
6.3.1 <i>Research area 3: The formal institutionalization of the informal belief at the national level</i> .....	173
6.3.2 <i>Research area 4: Interaction between the national level and the organizational level in the formal institution</i> .....	179
6.3.3 <i>Research area 5: Interaction between the national level and the individual level in the formal institution</i> .....	187
6.4 THEORETICAL DEVELOPMENT .....	190
6.4.1 <i>The interaction between formal and informal institutions at national, organizational and individual level: Conventional institutional theory view</i> .....	191
6.4.2 <i>The interaction between formal and informal institutions at national, organizational and individual level: Chinese SOE context</i> .....	192
6.4.3 <i>The interaction between formal and informal institutions at national, organizational and individual level: Chinese SOEs' cross-border M&amp;A context</i> .....	193
6.5 CONCLUSION .....	198
<b>CHAPTER 7 CONCLUSION .....</b>	<b>201</b>
7.1 INTRODUCTION .....	202
7.2 MAIN FINDINGS .....	202
7.3 MAJOR CONTRIBUTIONS .....	205
7.3.1 <i>Contributions to literature</i> .....	205
7.3.2 <i>Methodological contributions</i> .....	207
7.3.3 <i>Policy implications</i> .....	208
7.4 LIMITATIONS: SAMPLE SIZE .....	211
7.5 SUGGESTED FUTURE DIRECTIONS OF RESEARCH .....	212
<b>APPENDIX .....</b>	<b>215</b>
<b>BIBLIOGRAPHY .....</b>	<b>238</b>

# List of Tables

<i>No.</i>	<i>Title</i>	<i>Page</i>
2.1	List of China's traditional pillar industries vs. China's current strategic industries and new emerging industries.	22
2.2	Prohibited, Restricted, and Encouraged categories regarding China's overseas investment.	23
2.3	NDRC "sensitive" catalogue on China's overseas investment.	24
2.4	Regional distribution of Chinese SOEs' cross-border M&A targets by number of deals and value of deals.	33
2.5	Top 5 target countries of Chinese SOEs' cross-border M&As by number of deals and value of deals.	37
2.6	Industry distribution of Chinese SOEs' cross-border M&A targets by number of deals and value of deals.	42
3.1	Summary of literature on conventional cross-border M&A motivations.	52
3.2	Summary of cross-border M&A motivations in the context China.	61
3.3	The central government agencies involved in the M&A process.	90
3.4	Compliance procedure on cross-border M&A investments.	90
4.1	Methodological review table.	105
4.2	Profile of interview participants in this research.	110
4.3	An example of exploration from data to code generation.	116
4.4	An example of the grounded theory coding process.	121
4.5	Outline of core categories, definitions, and examples of questions asked.	124
5.1	Summary of key findings based on responses from interviewees.	160



## *Appendix*

1	Cumulative total of cross-border deals undertaken by Chinese SOEs' by industry (2002 – 2016).	216
2	Industry distribution of Chinese SOEs' cross-border M&A targets regionally by number of deals.	217
3	Industry distribution of Chinese SOEs' cross-border M&A targets regionally by value of deal (100 mil USD).	220
4	Top 3 largest single cross-border M&A deals by Chinese SOEs' from each period.	223
5	Industry distribution of cross-border M&A targets by Chinese SOEs' and Non-state enterprises	224
6	The list of potential interview questions adopted by this research.	237

# List of Figures

<i>No.</i>	<i>Title</i>	<i>Page</i>
1.1	A comparison of the total number of cross-border deals undertaken by Chinese SOEs and non-state enterprises from 2002 – 2016.	2
1.2	The interactions between the informal and formal institutions at the state, SOEs, and SOE manager level in the Chinese context.	10
4.1	An example of the line-by-line coding process using Dedoose.	115
4.2	An example of the comparison of excerpts within the same emerging coded category using Dedoose.	118
4.3	Development of core codes/categories.	120
4.4	The grounded theory process.	123
5.1	Research areas, theoretical categories and corresponding key subcategories.	135
5.2	The influence of the informal institution and the direction of the institutionalization process in the China context.	143
5.3	Institutionalization of the informal institutional beliefs into the formal institution at the national level.	148
5.4	Interaction between the national level and organizational level within the formal institution.	154
5.5	Interaction between the national level and individual level within the formal institution.	158
6.1	Conceptual framework illustrating the direction of institutional change between the informal and formal institution at the national, organizational, and individual level: A conventional perspective.	195
6.2	A China-specific conceptual framework illustrating the top-down formal institutional directive between central government (national level), SOEs (organizational level), and SOE managers (individual level).	196

6.3	A China-specific conceptual framework illustrating the complete dynamic of the informal and formal institutional on the central government (national level), SOEs (organizational level), and SOE managers (individual level) - with the resultant outcome of cross-border M&As.	197
6.4	A proposed China-specific relationship between informal and formal institutions across the national (State), organizational (SOEs), and individual (SOE leaders) levels during the cross-border M&As process by SOEs.	200

# List of Abbreviations

AIIB	Asian infrastructure investment bank
ASEAN	Association of Southeast Asian nations
AVIC	Aviation Industry Corporation China
CCCC	China Communications Construction
CELAC	Community of Latin America and Caribbean States
CGN	China General Nuclear
CNOOC	National Offshore Oil Corporation's
COFCO	China National Cereals Oils and Foodstuff Corporation
COSCO	China Ocean Shipping Company
CNPC	China National Petroleum Corporation
EIBC	Export-Import Bank of China
EU	European Union
FDI	Foreign direct investment
FYP	Five-year plan
GDP	Gross domestic product
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
M&As	Mergers and acquisitions
MNE	Multinational enterprise
MOFCOM	Ministry of Commerce
NDRC	National Development and Reform Commission
OFDI	Outward foreign direct investment
R&D	Research and development
RBV	Resource based view
RMB	Renminbi
ROA	Return on assets
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission
SOEs	State-owned enterprises
PBC	People's Bank of China

PPP	Purchasing power parity
UK	United Kingdom
UNCTAD	United nations conference on trade and development
US	United States
USD	US dollar
WTO	World Trade Organization

# **Chapter 1**

## **Introduction**

## **1.1 Motivation for this research: Heterogeneous pattern of cross-border mergers and acquisitions (M&As) by state-owned enterprises (SOEs) vs. non-SOEs in China**

Since 1978 China has been undergoing socio-economic reforms, transitioning from a centrally planned economy to one driven more by market forces. In doing so, economic reform has been experimental. Deng Xiaoping famously characterized this as “*crossing the river while feeling the stones one by one.*” The goal was to create an efficient market economy akin to those seen in developed nations, while at the same time, encouraging majority state ownership in key industrial and service sectors (Perkins, 2018). This would allow China to maintain both a leading economic and political role, while also, creating a modern socialist market economy, with unique Chinese characteristics (Lin et al., 2003).

As a result of economic reform, China has experienced unprecedented economic and social development. China is now the second largest economy in the world in terms of nominal gross domestic product (GDP) and, is the world largest economy in terms of power purchasing parity (PPP) (IMF, 2018).<sup>1</sup> Much of China’s economic success has resulted in substantial outward foreign direct investment (OFDI). For example, in 2016, China was the second largest source of OFDI. In addition, OFDI by China totalled USD \$196 billion in 2016, with much of it driven by a surge of cross-border mergers and acquisitions (M&As) (UNCTAD, 2017). Furthermore, 2016 saw the greatest amount of cross-border M&A in Chinese history; a total of 438 deals with a collective value of USD \$99.33 billion were successfully concluded (UNCTAD, 2017).

The total number of cross-border M&A deals made by state-owned enterprises (SOEs) vs. Non-state enterprises can be seen in Figure 1.1. Based on a total of 241 deals,<sup>2</sup> during the 10<sup>th</sup> – 11<sup>th</sup> five-year plan (FYP) period,<sup>3</sup> cross-border deals

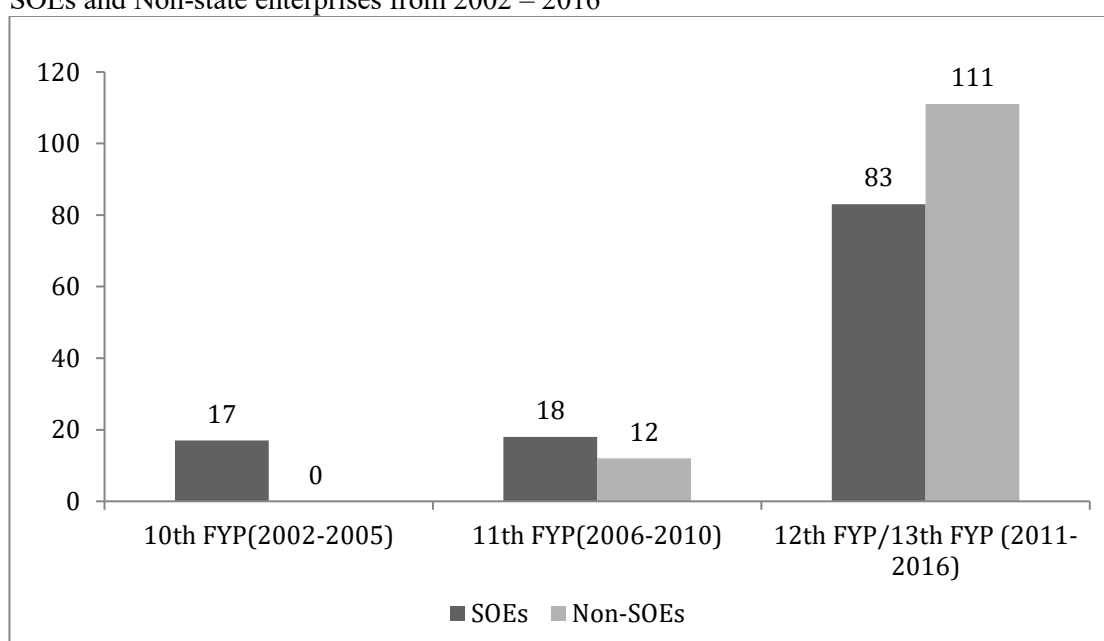
---

<sup>1</sup> In 2017, China’s nominal GDP was USD \$12.01 trillion, and based on PPP China’s economy accounted for \$23.16 trillion.

<sup>2</sup> Data collected from Zephyr M&A database constructed by the Bureau van Dijk. Financial offshore centers such as British Virgin Island and Cayman Islands were excluded from the dataset. Additionally, transactions targeting Hong Kong were excluded based on intermediary behavior.

undertaken by SOEs were dominant, indicating that overseas M&A activity was mostly directed by state-led firms. This can be attributed to the state policy “Go out,” which encourages Chinese enterprises to undertake investments abroad (Buckley et al., 2007). SOEs were chosen by the state to be the first enterprises to go abroad. In support of this, SOEs were often granted favourable loans to facilitate the swift acquisition of assets closely aligned to state interests (Shambaugh, 2013). Consequently, most of the overseas investments undertaken during the initial “Go out” period was primarily led by SOEs (Naughton, 2006).

Figure 1.1. A comparison of the total number of cross-border deals undertaken by Chinese SOEs and Non-state enterprises from 2002 – 2016



*Data source: Zephyr M&A database. Constructed by the author*

Most noteworthy from Figure 1.1, is the substantial increase in cross-border M&A activity by both SOEs, and non-state enterprise during the 12<sup>th</sup> FYP period. In the 12<sup>th</sup> FYP period, a growth rate of 361.1% in SOE cross-border activity can be seen, as well as an 825% increase by non-state enterprises. Many of the observed increases can be attributed to the relaxation of formal state administrative procedures concerning overseas FDI. Specifically, in 2014, The National Development Reform Commission (NDRC) released a notice on the “Administrative Measures for the

<sup>3</sup> To best assist analysis, the evaluation will be separated into three periods that correspond to the relevant Five-Year Plans (FYPs). As there is only one year (2016) that corresponds to the 13<sup>th</sup> FYP period, this year has been added into period 3.



Approval and Record Filing on Outbound Investment Projects.”<sup>4</sup> This notice related to simplification of the overseas investment regulatory framework governing all Chinese firms. Specifically, overseas investments made in general industries (i.e. not involving sensitive sectors) with a value less than US \$1 billion (later revised to USD \$300 million in 2017), no longer needed formal approval or verification by the NDRC. Instead, deals required reporting to the NDRC, with firms required to obtain an acknowledgement letter from the NDRC. This streamlined the process and eliminated significant bureaucratic hurdles. And thus, greatly incentivizing Chinese enterprises to seek investment opportunities overseas.

The industry distribution of the cross-border M&A deals in terms of the total number of deals undertaken by SOEs and non-state enterprises can be observed in Appendix 1.1, Table 5.<sup>5</sup> Upon analyzing the deals by industry, SOEs still dominate many key strategic industries, particularly in the case of natural resources, finance, and manufacturing. The rationale for such significant SOE presence in these industries is argued to stem from formal national development policies set out the government and directed to SOEs. Examples of formal measures that stimulated cross-border investment activity (particularly witnessed in period 3) included; mandates that encouraged the pursuit of targets aligned with the objectives of the One Belt One Road and Made in China 2025 initiatives. This directly resulted in a marked increase in both natural resource and manufacturing related acquisitions. The presence of SOEs by industry distribution will be further explained in Chapter 2.

There is a clear distinction between the behaviour of SOEs and other firms. Interestingly, it can be noted, that despite amendments to formal overseas investment protocol with the aim of encouraging increased overseas investment by all Chinese firms – SOEs still dominate most of China’s strategic industries. Scholars have argued that Chinese SOEs are not commercial enterprises and instead are the extension of Beijing’s economic policies (Robins, 2013; Jones & Zou, 2017). This is

---

<sup>4</sup> National Development and Reform Commission (NDRC). *Administrative Measure for the Verification and Approval and Record-Filing of Outbound Investment Projects*, <<http://www.ndrc.gov.cn/fzgggz/flfg/flgz/201507/W020150702406621311421.pdf>>, 2014.

<sup>5</sup> Additional analysis by deal value could not be attained due to the limited deal value disclosure by non- state enterprises. A total of 28.6% of the deals undertaken by non-state enterprises were not made available.

supported by Brødsgaard et al., (2017) who argue that as the controlling shareholder of SOEs, the Chinese government has a substantial impact on the actions of SOEs. Moreover, Leutert (2018) asserts that because the appointment of a chairman of an SOE is directed by the state, this adds a further dimension of political influence. This state influence spurs an authoritarian style intervention and regulation in SOEs, to a degree not seen in Western organizations (Pearson, 2005). Thus, it is argued that the behaviour observed in SOEs is not that of a conventional commercially driven organization, and the state-SOE relationship is specific to that of China.

### **1.1.1 Application of the institutional theory in the China context: Gaps in the literature and contextualization of this research**

Much of the existing literature with the application of the institutional theory in the China context is firstly based on OFDI in a general sense (Child & Rodrigues, 2005; Buckley et al., 2007; Luo, Xue, & Han, 2010). The use of the institutional perspective in the existing literature is not exclusive to a specific mode of OFDI and thus has limited explanatory power in the pure context of cross-border M&A. Therefore, this research will aim to fill in the gap in the existing literature by introducing a China-specific institutional framework, exclusively applicable to the institutional theory in the context of SOEs led cross-border M&A.

Secondly, there is a lack of literature that explains the cross-border M&A phenomenon from the exclusive perspective of Chinese SOEs. Specifically, much of the existing M&A literature, leverage studies based on data comprised of both state and, non-state enterprises (Du & Boateng, 2015; Schweizer, Walker, & Zhang, 2017; Zhang & Mauck, 2018). In using such a dataset (i.e., one made up of both state and non-state enterprises), SOEs are assumed to be conventional organizations, with autonomy to dictate their own M&A activity. In the context of China, SOEs are organizational agents of the state, directed by state mandates with a strong responsibility to complete government objectives. Moreover, the state fundamentally appoints SOE managers, thereby further influencing their behaviour and, highlighting that the embedded nature of the state on SOEs at three levels (national, organizational, and individual). This research will therefore add to the existing cross-

border M&A literature by illustrating the effect of the institution on the central government, SOEs, and SOE managers.

Lastly, there is limited literature that is able to explain how the significance of China's past historical achievements; national pride and identity, drives the collective desire to achieve national rejuvenation. Hope, Thomas, & Vyas (2011) and Chatzkel & Ng, (2013) have illustrated the significance of 'pride' in the M&A bidding process, i.e. inflated bids for the sake of 'ego' or to prevent a 'loss in face.' However, the findings of this thesis highlights that national pride is a tacit quality inherent to the Chinese identity, and pride motivates SOEs to pursue cross-border M&As deals that will serve the overarching goal of national rejuvenation. It is argued that the prevailing literature overlooks the influence of the informal institution. Therefore, this thesis will contribute to M&A literature by studying the intangible properties, fundamental to China's informal institution, and determine how these factors are instrumental in shaping the formal outlook of the state, SOEs, and SOE leadership; subsequently influencing cross-border M&A activity.

Drawing on an institutional perspective, this thesis aims to shed light on the ways in which the Chinese government influences the behaviour of SOEs and subsequently; how this can impact cross-border M&A patterns. It is pertinent to note that due to the unique dynamics highlighted above and moreover, the extraordinary relationship between state and SOE; a tailored and, a China-specific institutional perspective analysis will underpin this research. That is, an informal and formal institutional analysis, undertaken exclusively in a China-specific context.

## **1.2 An institutional approach to this research**

As noted by Scott (2004), a country's institutions are comprised of set rules, social norms and, specific cognitive mindsets that determine socially acceptable behaviour. Institutions are also closely linked to the demands of centralized authorities, while at the same time, being connected to individual-level personal beliefs, practices and, norms. In-line with the aforementioned points, Meyer & Hammerschmid (2006) and Grzymala-Busse (2010) also underscores the close association between the institution and formal and informal institutions.

### *Formal institution*

The formal institution is considered as the institutional framework embodying written, legal and, regulatory guidelines and laws (Meyer & Rowan, 1977). The formal institution therefore determines *the rules of the game* and *how the game is played*. Pejovich (1999) defines the formal institution as formal rules, which includes constitutions, common law, and governmental regulation. The actions of the formal institution can govern the political, economic, and the enforcement system (North, 1991). Therefore, the formal institutions will ultimately determine for example the governing structure, the legal rights of individuals, property rights, and the jurisdiction – i.e., what is established by the law. Not only does the formal institution embody the rules and regulations but it can also incorporate the values, norms, and beliefs of some groups of society (Scott, 2004). However, not all individuals share the same values and beliefs due to differing perspectives and personal experiences. Therefore these individuals will be in conflict with the formal institution's view (laws and regulation) on what is deemed legitimate (Azari & Smith, 2012).

### *Informal institution*

The informal institution is made up of unwritten or implied norms, in addition to cultural and cognitive rules (Pejovich, 1999). The informal environment is implicit and can affect the rules of the game (Pejovich, 1999). Informal institutions are considered unwritten norms, cultural and cognitive rules (North, 1991). Pejovich (1999) classifies informal rules as traditions, customs, morals, values, religious beliefs, and all other norms that have been passed down through each generation. It is these intrinsic qualities, i.e., an implicit set of values with a legacy that can be a powerful tool in altering the way individuals can perceive the environment and greater society (Scott, 2004). Supported by Chacar et al. (2017), informal rules are considered as socially constructed, routine-reproduced programs that identify the most appropriate manner to pursue social purposes. Sauerwald & Peng (2013) agreed that informal rules are unwritten socially shared rules that are created and communicated outside of what is enforced by the central state. In capturing the use

of the informal institution, it has meant a more distinctive framework has emerged which also captures the use of intangible approaches.

This interaction and, subsequent harmony, between both the formal and informal institution, forms the basis for the principles that guide society (Azari & Smith, 2012). It is said that the formal and informal institution is interconnected, and that both the formal written rules and the informal unwritten rules can actively influence institutional change in one another, wherein new institutional change can become ‘institutionalized’ (Zucker, 1977).

### **1.2.1 Institutionalization of informal institution into formal institution, Chinese style**

#### *National rejuvenation*

China’s rich and well-documented history of past achievements, both cultural and scientific, has served to give the Chinese people a strong sense of national pride (Lin, 2013). However, from the perspective of many Chinese, recognition of these past accomplishments is diminished due to China’s perceived “lost century” or “century of humiliation” (Lei, 2017) <sup>6</sup>. This period was symbolically ended by the formation of the People’s Republic of China in 1949, from which point China isolated itself by significantly withdrawing from international trade and relations (Kaufman, 2010). However, isolation had the reverse desired effect; restricted trade flows along with the adverse effects of China’s planned market economy, caused further regression and greatly stifled economic and scientific progress (Yan, 2001). During the same period, Western nations flourished both scientifically and economically, thus further exacerbating China’s regression (Lin et al., 2003).

Since China reopen its doors in the 1970s, the central state has communicated the emotionally poignant ideology of the “rejuvenation of China” to the Chinese people; i.e. restoring China to its former state of glory. The concept of the rejuvenation of China quickly resonated with the people of China and, has since become a deep-rooted source of motivation; driving the objective of reinstating China as a global

---

<sup>6</sup> The lost century started during the Opium War in 1839 and lasted until the founding of the People’s Republic on China 1949.

leader (Ferdinand, 2016). Analogous to the principles of national rejuvenation, more recently the “Chinese Dream” also deploys an emotionally poignant narrative – i.e. national pride and reclaiming lost glory – to inspire collective effort to rejuvenate China. Callanhan (2016) and Chugani (2017) highlights how the Chinese Dream is integrated with the state, the Chinese people, and the Chinese individual. That is to say, this shared sense of national pride among the Chinese, is ingrained at three societal levels; national (state), organizational (SOEs) and, individual (SOE managers). It is put forward by this thesis, that China’s complex sense of national pride, resulting from a combination of their rich history of prestigious achievements and subsequent decline, forms the foundation of China’s informal institution. Thus it is this informal institutional belief that has subsequently been institutionalized into China’s formal institution.

### **1.2.2 An institutional perspective in the context of cross-border M&A by Chinese SOEs**

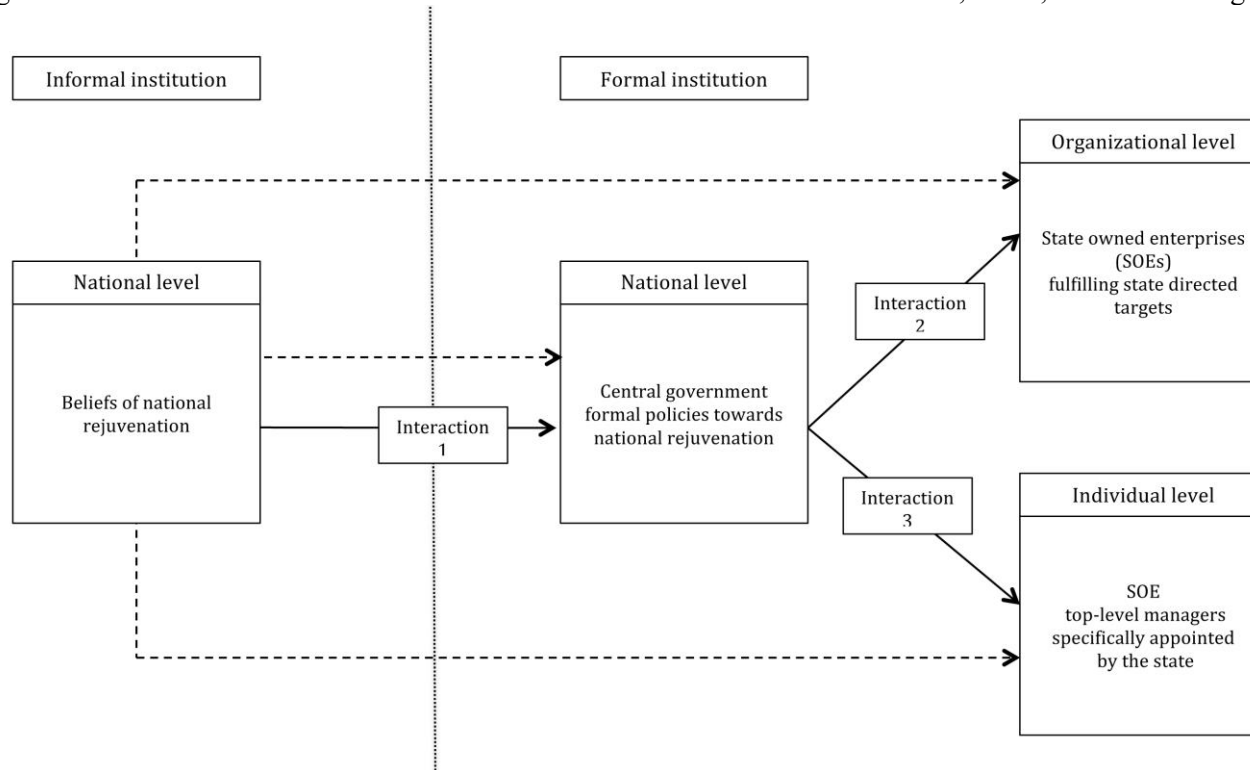
China has finite resources, raw materials, agricultural goods, technology etc. (Gonzalez-Vicente, 2012; Qi & Zhang, 2018). Therefore, China must look outwardly in order acquire the resources required for the myriad of projects central to the Chinese dream. Resultantly, the central state has developed a series of cross-border M&A measures to serve the objectives of the China dream and facilitate national rejuvenation. This includes, firstly; the “Go out” policy, an initiative used to champion Chinese enterprises to external corporations and facilitate the pursuit of overseas investments (Karolyi & Liao, 2010). Secondly, specific administrative guidance, for example state issued catalogues detailing “encouraged” areas for targeted M&A activity (NDRC, 2018). And finally, ambitious projects such as “One Belt One Road” and “Made in China 2025”, both of which features prominently in the 13<sup>th</sup> FYP.

SOEs are considered an extension of the Chinese state and thus, are often used to ensure the fulfilment of state directives and, were created by the Communist party during the founding of The People’s Republic of China in 1949 (Li & Brødsgaard, 2013). SOEs are primarily managed by the State-owned Asset Supervision and Administration Commission (SASAC), an institution under the direct supervision of

the State Council of the Peoples Republic of China. As of 2018 96 SOEs are under direct supervision (SASAC, 2018). SASAC by definition acts to protect and enhance state assets (Jones & Zou, 2017). Thus, SOEs are at the very heart of the political party and represent China's ideologies. The maintaining of a single ruling party has meant that the core values of SOEs have remained tightly aligned with those of the government (Robins, 2013). As a result, the party is able to channel strategic, national-level objectives to SOEs, subsequently utilizing them as powerful instruments to support the fulfilment of state goals (Feng, 2016).

This research will highlight how the shared belief of national rejuvenation, has been institutionalized into China's formal institution (as per Figure 1.2, interaction 1). As a result, the desire for national rejuvenation forms much of the logic behind China's political and economic decisions. Indeed, national-level policies, targets, principles, and guidelines all formally reflect the informal values. Resultantly, this facilitates that the state mandate of national rejuvenation is fulfilled. And because of the close link between the values and beliefs of both the Chinese institution and society, a greater degree of social order is possible; thus facilitating the smooth progression of state-led economic reforms (Reynolds 2008; Cui & Jiang, 2012). Moreover, the interaction between the state, SOEs, and SOE leaders, the influence that the state has on the behaviour of SOEs and SOE leaders during the cross-border M&As process will be also studied (as per figure 1.2, interaction 2 & 3). It is argued by this research that, SOEs and SOE managers are acting as agents to the state. Formally the central government is able to ensure that SOEs carry out state plans by directing state targets to SOEs. In encouraging the pursuit of these strategic targets by means of cross-border M&As, the state is able to ensure that all cross-border M&A activities are aligned with the state plans. Resultantly, it is indicative that the beliefs of national rejuvenation are also deeply embedded into the SOEs and appointed SOE personnel.

Figure 1.2. The interactions between the informal and formal institutions at the state, SOEs, and SOE manager level in the Chinese context.



Notes: Constructed by the author

--> corresponds to informal institutional interaction;

—> corresponds to formal institutional interaction



### 1.3 Research questions and objectives

This research aims to investigate the motivations of cross-border M&As by Chinese SOEs using an institutional perspective. In doing so, the following research questions and objectives have been designed to best facilitate and satisfy this thesis.

- Research question 1: What are the distinctive features of the institutionalization process in the China specific context?
- Research objective: To illustrate the significance of the informal belief of national rejuvenation which has been institutionalized in a top-down manner into China's formal institution and reflected through China's formal policies.

In the context of China, the informal belief of rejuvenation is consistent throughout the national, organizational and, individual level. Therefore, the change in the formal institution is mainly directed in a top-down fashion; from the state to SOEs at an organizational level, and then, from the state to SOE managers at an individual level. This goes against the conventional view that institutional change can occur at an individual level in a bottom-up fashion. Therefore this research question will contribute to existing literature by developing a China-specific conceptual framework illustrating the top-down direction of institutional change between each level - state, organizational, individual.

- Research question 2: How does the Chinese-style institutionalization process facilitate the unique characteristics of cross-border M&A activities by Chinese state owned enterprises (SOEs)?
- Research objective: To illustrate the impact of the informal belief of rejuvenation that is driving the formal institution at the national level, as well as influencing the behavior of SOEs (organizational level) and SOE managers (individual level), and thus creating cross-border M&A activity that is distinct to China.

This research question will contribute to existing literature by highlighting the relationship between the state, SOEs, and SOE leaders through the dynamics

between the informal and formal institution (at the national, organizational, and individual levels). It is argued that the state can only achieve this because the informal belief of China's national rejuvenation is consistent at all three levels. As a result, the state is able to command a China-specific distinct pattern of cross-border M&As that is aligned with the directives of the state mandate. That is, all cross-border M&As undertaken by SOEs are for the objective of reinstating China to its former excellence.

## **1.4 Methodological issues conducting this research**

Qualitative literature adopting an interview approach to determining the motivations for cross-border M&A by Chinese SOE is very limited. This is primarily due to the difficulty of attaining meaningful interview data from SOEs. This is because finding SOE personnel willing to discuss the topic of cross-border M&A is challenging, and moreover, typically SOE managers will not be authorized to discuss these topics openly. In the event of securing an interview with an SOE manager, the close state ties highlighted in this research, would make the goal of obtaining reliable, high-quality information, unlikely. Therefore, SOE personnel are cautious in disclosing information and are reluctant to participate in interviews.

It is argued that undertaking a qualitative approach – by way of in-depth interviews – is critical, if gaining a deeper understanding of the Chinese institution is desired. This deeper understating refers to: how informal beliefs are formally institutionalized by the state, and how the state is able to influence the actions of SOEs to ensure that institutionalized beliefs are fulfilled through the use of cross-border M&As. In addition, tacit and intangible, yet fundamental, China-specific qualities such as “*pride*” and “*national rejuvenation*” cannot be easily quantified or recorded. Therefore, this thesis asserts that only through undertaking a qualitative approach, can a full and rich analysis be made on the effects of the Chinese institution on motivating cross-border M&As led by SOEs.

This research managed to obtain 32 in-depth interviews covering 26 different national level SOEs. Interviews were conducted with high-level industry experts,

each with considerable experience working on cross-border M&A deals undertaken by Chinese SOEs. It should be highlighted, that firstly these interviewees are third party individuals that are not affiliated with the state or SOEs thus offering an unbiased/objective view and thus enhancing the validity of the results. Secondly, using an external perspective i.e. by conducting elite interviews provides an opportunity to obtain a unique insight into the research matter. That is, it offers a different perspective to what could have been obtained from SOEs directly thus contributing to the distinctiveness of this research. Thirdly, these interviews were the direct result of long-established relationships cultivated over several years and given on the basis of trust. Because of this, participants were comfortable to speak openly, facilitating the collection of rich information. Therefore, the findings of this thesis will make a significant, methodological contribution to the existing qualitative literature on cross-border M&A by Chinese SOEs.

## **1.5 Structure of thesis**

Following the introduction to this thesis, the structure will be as follows:

Chapter 2 is a contextual chapter that will provide a comprehensive discussion on the role of the state in facilitating M&A activity as well as an analysis on the dynamics of cross-border M&A by SOEs. This chapter will discuss the role of SOEs as an organizational agent of the state, along with the state related policies that encourages cross-border M&A activities. The chapter will then continue to be an analysis of the cross-border M&As conducted by SOEs between 2002 through to 2016. In doing so, secondary data was collected and analyzed from a formal policy perspective, while also, taking the viewpoint of the target region and industry into account.

Chapter 3 will present conventional M&A motivations, limitations of existing motivations, and a critical review on existing cross-border M&A literature in the China context. This chapter will then proceed to present the theoretical framework underpinning this research i.e. an institutional perspective with the inclusion of both the informal and formal institutions. In presenting this framework, Chapter 3 will justify why the institutional theory has been utilized to support this research; in

addition to highlighting how this framework sheds light on the conceptual dynamics of the informal, and formal institution in the China context, as well as an analysis at the national, organizational and, individual levels.

Chapter 4 will outline the methodology used to undertake this research; that is, logic for following a grounded theory approach is discussed, underscoring the merits of this mode to best explore institutional effects in the China context. Research strategy, data collection methods, and the research design was undertaken to ensure satisfactory conclusions to research questions 1 and 2 (and corresponding objectives), will also be comprehensively presented in this chapter.

Chapter 5 will summarize the findings of this research by highlighting 5 key research areas, subsequent theoretical categories and subcategories elicited by the grounded theory approach. The dynamics of each theoretical category will be illustrated, and the determined theoretical categories will be supported by the presentation of key excerpts from the collected data.

Chapter 6 is an in-depth discussion of the key findings of this research, further enhanced and supported by relevant literature. The theoretical development along with a China-specific, conceptual framework designed to demonstrate how informal and formal institutions – at the national, organizational, and individual level – direct cross-border M&A by Chinese SOEs, concludes this chapter.

Chapter 7 will outline the main points and concluding remarks of this thesis. Additionally, the ways in which this research will contribute to the prevailing M&A literature and policies will be highlighted, along with a discussion of the possible limitations of this study. This chapter will close this thesis with a consideration on possible directions for future research.

## **Chapter 2**

### **The role of the state and SOEs in Chinese cross-border M&A activities: A contextual analysis**

## 2.1 Introduction

This chapter will provide a synopsis of state-owned enterprises (SOEs) as major organizational agents of the state, along with the identification of the formal state policies, which act to encourage and direct cross-border mergers and acquisition (M&As) by Chinese SOEs. This includes key national policies, administrative guidelines and key national policies – all of which aim to encourage cross-border M&A in state selected industries and regions (section 2.2). In order to obtain the complete picture and to fully understand the China-specific cross-border M&A phenomenon, this chapter will also analyze cross-border M&As by SOEs by adopting a contextual analysis approach with a focus on the role of the state. This has been attained through collected secondary data from Zephyr M&A database constructed by the Bureau van Dijk. This chapter will present the analyzed Chinese SOEs cross-border M&A data in order to illustrate how the formal institution, through policies, regulations, and guidelines has influenced the cross-border M&As by Chinese SOEs. In doing so, an overview of the regional and industrial characteristics of Chinese SOEs' cross-border M&A activities will be provided and thus reflect the state's involvement on the distribution patterns of Chinese SOEs' cross-border M&A deals. This will be supplemented with a focus on the influence of the relevant central government policies and regulations. The constructed overall dataset comprises of a total of 115 deals made by Chinese SOEs from 2002 – 2016. In order to best assist analysis, the evaluation will be separated into three periods that link to the relevant Five Year Plans (FYPs) as follows: <sup>7</sup>

- Period 1: 2002 – 2005 (10<sup>th</sup> FYP)
- Period 2: 2006 – 2010 (11<sup>th</sup> FYP)
- Period 3: 2011– 2016 (12<sup>th</sup> FYP/ 13<sup>th</sup> FYP) <sup>8</sup>

---

<sup>7</sup> China's Five Year Plans (FYP) are a set of detailed social and economic top policy goals that are used to align the economy. It is a roadmap and key indicator for the direction of national development. The FYP is central to laying the foundations, mapping the strategies, and setting the growth targets to further economic reforms (Hu, 2013). It is communicated by the highest level of leadership and directed at subordinates below for national implementation (Casey & Koleski, 2011).

<sup>8</sup> As there is only one year (2016) that corresponds to the 13<sup>th</sup> FYP period, this year has been added into period 3.

Section 2.3 will introduce the methodology adopted by this research, which is also used to screen data. Sections 2.4 will present the geographic distribution of cross-border M&As conducted by Chinese SOEs, while also cataloguing these by the number of deals and by the value of deals. This section will begin with a regional analysis, and will then further the analysis by considering the data at country-level. Section 2.5 will outline the industry level distribution pertaining to the cross-border deals investigated in this study. These transactions have been grouped into the following categories; manufacturing, natural resources, finance, and technology.

## **2.2 The formal institutional foundation**

### **2.2.1 State-owned enterprises (SOEs) as a major organizational agent**

SOEs dominate the domestic market in China across all key industries. In 2006, the State-Owned Assets Supervision and Administration Commission (SASAC), highlighted seven strategic industries to be kept under tight state control. These industries are; defence, electricity, petroleum, telecommunication, coal, civil aviation, and shipping (Gang & Hope, 2013). In addition, SASAC outlined a list of five, further pillar industries which should also remain under careful watch by the state. These were singled out as, machinery, automobiles, steel, base metals and, chemicals. Because both the strategic and pillar industries fall under strict state regulation, this has led to each respective market being dominated by SOEs. These SOEs are, presented to the world as the great success stories of China, however, at the same time, remain under significant state influence. Specifically, SOEs must foremost follow state mandates. Indeed, as documented by Jones & Zou (2017) China follows an authoritarian control mechanism, allowing the state to both influence and control SOEs when deemed necessary.

The majority control of SOEs is governed by SASAC, which in turn, is under the direct authority of the State Council of the Peoples Republic of China. SASAC was formed in 2003 as a result of the consolidation of SOEs and reform, as of 2018 96 SOEs are under direct supervision (SASAC, 2018). SASAC manages the SOEs that are considered the largest and most important by the state council. These are also known as the national level central SOEs, i.e., the national champions. Such SOEs

include those that fall within the SASAC's seven strategic and pillar industries. SOEs were created by the Communist party during the founding of The People's Republic of China in 1949. The maintaining of the one ruling party has meant that the core values of the SOEs have remained consistent and tightly aligned with the central government. That is, SOEs were created by the state to serve a strategic purpose of rebuilding China after years of war and civil unrest - all while providing stable, long-term employment to much of the Chinese population (Li & Brødsgaard, 2013).

SASAC by definition is a shareholder and not a direct owner, planner or manager of SOEs. One key role that SASAC plays is acting to protect and enhance state assets and to promote the greater profitability of SOEs (Jones & Zou, 2017). SASAC is also responsible for appointing senior SOE managers; however, the state party remains responsible for assigning positions to top leadership i.e., the chairman. In the case of the chairman, typically this will be a high ranking party official, rather than a business leader experienced in successfully managing large for-profit enterprises (Cull & Xu, 2003). As a direct result, the chairman would remain in close contact with the state, following party objectives as a priority, rather than pursuing efficiency or profit gains (Brødsgaard et al., 2017). The direct managerial appointments by SASAC and the state party, further underscores the intertwined nature of SOEs and government and, highlights how the party is able to ensure state plans are carried out.

The importance of SOEs as an organizational agent to the state was reflected during the National Party Construction Work Conference of State-Owned Enterprises in 2016. At this conference, the strengthening of the party's role within SOEs was emphasized, and moreover, the importance of SOEs in carrying out party mandates was also highlighted.

*“The party leadership and building the role of the party are the root and soul for state-owned enterprises.... The party's leadership in state-owned enterprises is a major political principle, and that principle must be insisted on... state-owned enterprises should also become important forces to implement decisions of the CPC Central Committee, the new development concept, major strategies such as the*



*"going out" strategies and the Belt and Road Initiative, as well as to enhance overall national power, economic and social development and people's wellbeing"*<sup>9</sup>

One a more fundamental level, SOEs are at the very heart of the political party and are representatives of China's ideologies. SOEs are critical for the sustained long-term growth of China. More importantly, the sustainability of SOEs is imperative if the state wants to fulfill their institutional belief of rejuvenating the great China.

## **2.2.2 Cross-border M&A related policies in China**

### **(1) China's "Go out" policy**

In 1999 the state council implemented China's "Go Out" (*zouchuqu*/走出去) policy. As a result of China's trade surplus and the masses of foreign reserves that China had accumulated, China turned its efforts to promote investments abroad (Hong & Sun, 2006). This strategy was developed to encourage competitive Chinese enterprises to make overseas investments, exploit foreign resources and partnerships, and establish overseas operations (State Council, 2001).

*"Fourth, we need to implement a "going outside" strategy, encouraging enterprises with comparative advantages to make investments abroad, to establish processing operations, to exploit foreign resources with local partners, to contract for international engineering projects, and to increase the export of labor. We need to provide a supportive policy framework to create favorable conditions for enterprises to establish overseas operations. We also need to strengthen supervision and prevent the loss of state assets."*<sup>10</sup>

For many years the state believed it should have a direct influence on the large companies and SOEs that dominated the Chinese economy, and viewed the concept of approving international expansion with caution as they feared this could result in a loss of control (Buckley et al., 2007). However, as the importance of global economic integration grew stronger, the central government realized that powerful multinational organizations were directly linked to an increase in international

---

<sup>9</sup> Xinhua, *Xi Stresses CCP leadership of state-owned enterprises*, <[http://www.xinhuanet.com/english/2016-10/11/c\\_135746608.htm](http://www.xinhuanet.com/english/2016-10/11/c_135746608.htm)>, 2016.

<sup>10</sup> State Council. *Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development*; <[http://www.gov.cn/english/official/2005-07/29/content\\_18334.htm](http://www.gov.cn/english/official/2005-07/29/content_18334.htm)>, 2001.

influence (Karolyi & Liao, 2010). Therefore, having Chinese enterprises that were able to compete internationally were crucial for increasing China's national competitiveness and became a fundamental Chinese objective.

In order to do this, the state council proposed more supportive foreign policies in order to encourage favourable conditions to motivate Chinese SOEs to go overseas. This included the state offering direct subsidies and tax rebates on overseas investments, greater emphasis on foreign investment funds, and better use of China's foreign exchange reserves (Schuller & Turner, 2005). For instance, the central government's China Export-Import bank provided loans to SOEs that wished to "go global" (UNCTAD, 2006). Moreover, the state agency; China Banking Regulatory Commission permitted commercial banks to grant loans to SOEs looking to pursue cross-border M&As (Salidjanova, 2011). Supporting overseas investment also required the establishment of SASAC in 2003. SASAC's responsibilities were: firstly to increase supervision in order to prevent losses in state assets (Naughton, 2006). Secondly, to support the central government's notion for the central-level SOEs to become profitable "national champions" as well as internationally competitive players (Shambaugh, 2013).

Progress towards overseas investment included identifying key permitted areas for foreign investment, including specifying cross-border M&As as a means of entering foreign market. In October 2004, the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) issued the following joint notice:

*"The special loans for overseas investments shall be mainly used for supporting the following key overseas investment projects:*

- (1) Overseas resource development projects which can make up for the relative insufficiency of domestic resources;*
- (2) Overseas productive projects and infrastructure projects which can give impetus to the export of domestic technologies, products, equipment, and labor services, etc.;*
- (3) Overseas research and development centers which may utilize internationally advanced technologies, management experiences and professional talents;*

*(4) Overseas enterprise acquisition and merger projects which can improve the international competitiveness of enterprises, and accelerate exploration of international markets.”*<sup>11</sup>

As a result of this notice, SOEs were noticeably directed into the specific areas of the state's overseas investment interests. Along with the favourable loans that were granted for these specific investment categories, collectively these acted as a significant motivation for cross-border acquisitions.

## **(2) Administrative guidance for overseas investments**

Within the FYPs that China releases every five years, the state council outlines priority areas for investment to assist in achieving national expansion goals (Cicenia, 2017). Priority industry areas will vary depending on the deepening of reform and the direction of China's state mandates. Thus, what is considered a strategic or key industry for China during one period will likely change with time. This subsequently means the SOE acquisition targets will also vary in accordance with the state plans. For example, from Table 2.1, it can be seen that industries such as petrochemicals and the manufacturing of automobiles were viewed as strategic to China for a number of years. However, as per the 12<sup>th</sup> FYP, new emerging strategic industries were identified such as energy conservation and environmental protection; new generation IT industry; biological industry; high-end equipment manufacturing; new energy; new materials; new energy vehicles.<sup>12</sup> Similarly, in the 13<sup>th</sup> FYP, 6 key emerging industries were guided as innovations in next-generation information technology industries; development of the biotech industry; intelligent perception of spatial information; energy storage and distributed energy; advanced materials; new-energy vehicles.<sup>13</sup> This is not to say that the industries in the 10<sup>th</sup> FYPs are no longer

---

<sup>11</sup> National Development and Reform Commission and the Export-Import Bank of China. *Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State*, <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=87e36f4101983498bdf>>, 2004.

<sup>12</sup> Ministry of Commerce. *Development Plan for National-Level Economic and Technology Development Zones and Border Economic Cooperation Zones During the 12th Five Year Plan (2011-2015)*, <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=b5b8873f1a898ceabdfb&lib=law>>, 2012.

<sup>13</sup> National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

considered strategic or important to China, more that, China is now pursuing a national strategy focused on innovation and technology. Thus this has subsequently been reflected in the promotion of new emerging industries. As a result, the cross-border M&As by SOEs are now primarily targeted in these newly identified industries (as observed in section 2.5).

Table 2.1. List of China's traditional pillar industries vs. China's current strategic industries and new emerging industries

<b>Traditional industries (10<sup>th</sup> FYP)</b>	<b>Strategic and emerging industries (12<sup>th</sup> FYP)</b>	<b>Emerging industries (13<sup>th</sup> FYP)</b>
Petrochemical and chemical processing	High-end manufacturing and equipment manufacturing (e.g., high-speed rail)	
Energy, e.g. coal mining	New energy (solar, wind, hydropower)	Energy storage and distributed energy
Infrastructure construction	Biotechnology	Biotechnology
Manufacturing of machinery	Environmental protection and energy conservation	Intelligent perception of spatial information
Telecommunications	Next generation of information technology	Next generation of information technology
Manufacturing of automobiles, airlines, shipping vessels	Clean energy vehicles (e.g., electric cars)	New energy vehicles (e.g., electric cars)
Metallurgy and building materials	New materials	New materials

Source: Constructed by the author based on State Council, MOFCOM, NDRC <sup>14</sup>

In supporting the 13<sup>th</sup> FYPs to direct areas of interest of overseas M&As, as well as to enhance the regulation and better standardize the direction of outbound investments by Chinese enterprises, the state council published a “Measures guide” in 2017 for outbound investments (Cicenia, 2017). As per the state council's notice, the Measures guide acts to promote the sustainable, healthy development of outbound foreign investment (State Council, 2017). The state council also points out that the guide also ensures that various risks are prevented as the needs of national economic and social development are better met. As seen in Table 2.2, this includes classifying outbound investments into one of the following three categories:

<sup>14</sup> State Council. *Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development*, <[http://www.gov.cn/english/official/2005-07/29/content\\_18334.htm](http://www.gov.cn/english/official/2005-07/29/content_18334.htm)>, 2001; Ministry of Commerce. *Development Plan for National-Level Economic and Technology Development Zones and Border Economic Cooperation Zones During the 12th Five Year Plan (2011-2015)*, <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=b5b8873f1a898ceabdfb&lib=law>>, 2012; National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

“Prohibited,” “Restricted,” and “Encouraged” for overseas investments by Chinese enterprises.

Table 2.2. Prohibited, Restricted, and Encouraged categories regarding China’s overseas investment

Prohibited	Restricted	Encouraged
Overseas investments involving the export of core technologies and products of military industry that have not been approved by the state	Investing in foreign countries and regions that have not established diplomatic relations with China, or engaged in wars, or bilateral, multilateral treaties or agreements concluded by China, which requires restrictions	Overseas infrastructure investment that is conducive to the construction of the “Belt and Road” and connections with neighbouring infrastructure
Applying overseas investment in technologies, processes, and products that are prohibited from exporting in China	Overseas investments in: Real estate, Hotels, Cinemas Entertainment, Sports clubs etc.	Investments that drive the output of superior production capacity, quality equipment, and technical standards
Overseas investment in illicit industries such as gambling and pornography	Establishing an overseas equity investment fund or investment platform without specific industrial projects	Investment and cooperation with high-tech and advanced manufacturing enterprises and to encourage R&D centers abroad
Foreign investments prohibited by international treaties provisions concluded or participated by China	Carrying out overseas investment using backward production equipment that does not meet the technical standards of the country of investment	Exploration and development of overseas oil gas, minerals resources, and other resource’s on the basis of careful assessment of the economic benefits
Other overseas investments that are harmful or may endanger national interests or national security	Overseas investments that do not meet the environmental protection, energy consumption, and safety standards of the country of investment	Expanding foreign cooperation in agriculture, mutually beneficial win-win investment cooperation in agriculture, forestry, animal husbandry, and fishing

Source: Constructed by the author based on State Council <sup>15</sup>

In order to supplement the state council’s regulation on overseas investment, the National Development and Reform Commission (NDRC) further released a “sensitive industries” catalogue for overseas investments in 2018 (Table 2.3). This catalogue was also developed in a bid to curb irrational spending which saw China’s foreign reserves fall below \$3 trillion from \$4 trillion in 2016, for the first time in six years (Pan, 2018). Collectively, from Table 2.1, 2.2, and 2.3, these guidelines act to firstly tighten control over outbound M&A investments in sensitive industries and

<sup>15</sup> State Council. *Notice of the General Office of the State Council on Forwarding the Guiding Opinions of NDRC, MOFCOM, PBOC and MFA on Further Guiding and Regulating the Direction of Outbound Investments*, <[http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)>, 2017.

sensitive countries (i.e. those that are at war or do not have diplomatic ties with China) therefore supporting what the state deems to be healthy development of overseas investments (He, 2018). Secondly, these guidelines are set to ensure that the state has better control over the type of investments SOEs are making. This means, SOEs are limited to making investments that are only in line with the state objectives. This method acts as a safeguard to ensure that the acquisitions made by SOEs are of strategic importance and beneficial to China.

Table 2.3. NDRC “sensitive” catalogue on China’s overseas investment

Sensitive Industries	Limited/Restricted
Development, production, and maintenance of weapons and equipment.  Development and utilization of cross-border water resources.  News and media outlets.	Real estate Hotels Cinema Entertainment industries Sports clubs Establishing an equity investment fund or investment platform without specific industrial projects overseas.

Source: Constructed by the author based on NDRC <sup>16</sup>

### (3) Key national programs: One Belt One Road and Made in China 2025

#### One Belt One Road

In 2013 Xi Jinping visited Kazakhstan and Russia and announced the plans for creating an economic belt and corridor for linking China with central Asia, Russia, and eastern and central Europe (Ferdinand, 2016). Shortly after this announcement Prime Minister Li Keqiang announced plans for a maritime Silk Road which links China with south-east Asia, India, the Persian Gulf, the Mediterranean, and further into Europe (Ferdinand, 2016). Both these projects make up China’s One Belt One Road initiative - a massively ambitious development which involves over 60 countries and over 4 billion people being connected through railways, highways, ports, and pipelines (Summers, 2015). China calls this a modern silk road that will to boost economic integration and will mark a new era of multilateral cooperation and globalization. Nordin & Weissmann (2018) argues that this initiative is a concrete

<sup>16</sup> National Development and Reform Commission (NDRC). *Notice on issuing the text of supporting the format on enterprise overseas investment management: Catalogue of Overseas Investment Sensitive Industries (2018 Edition)*, <<http://www.ndrc.gov.cn/fzgggz/flfg/flgz/201507/W020150702406621311421.pdf>>, 2017.

manifestation of Xi Jinping's "Chinese dream" of rejuvenation from national humiliation.

*"With the Belt and Road Initiative paving the way, we will give greater meaning to the notion of opening up, increase our level of openness, and coordinate efforts to strengthen strategic mutual trust, investment and trade cooperation, and cultural exchanges...we look to undertake practical and mutually-beneficial cooperation in multiple sectors with countries and regions involved in the Belt and Road Initiative, with the aim of developing a new picture of all-around opening up in which China is opened to the world through eastward and westward links and across land and sea"*<sup>17</sup>

The estimated cost of this project is \$8 trillion with expectations on the timeframe to be approximately 35 years (Hillman, 2018). China has already committed USD \$1 trillion to begin developing the infrastructure links in western China (Bruce-Lockhart, 2017). China has also established The Asian Infrastructure Bank (AIIB) in 2015 in order to support investments related to the Belt and Road initiative. The AIIB bank members include the United Kingdom, Australia, and South Korea. It is reported that the bank has USD \$65 million in capital to support infrastructure projects (Dollar, 2015).

In terms of the rationale for this project, scholars have argued that this project is an opportunity for Chinese enterprises to seek overseas alternative investment opportunities, projects, and markets due to China's recent economic slowdown and their domestic overcapacity (Dollar, 2015). It is also believed that this project will further facilitate China's "go out" strategy in securing a stronger international presence in new markets and thus further the internationalization of the Chinese economy (Ferdinand, 2016). Above all, Nordin & Weissmann (2018) understands the Belt and Road as a redirection of Chinese foreign policy. That is, a combining the "Chinese dream" with new policies and new institutions to build what Xi Jinping calls a "community of shared destiny." This shared destiny includes shared beliefs and norms, mutual respect and trust, but also a destiny where China is at the center (Callanhan, 2016).

---

<sup>17</sup> National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

The One Belt One Road initiative has featured prominently in the 13<sup>th</sup> FYP, and is the most far-reaching and significant ambition put forward by the state (Swaine, 2015). The importance of this project is illustrative in the NDRC's guide on China's outbound foreign investment where investments towards the Belt and Road are greatly "encouraged" (see Table 2.2). This encouragement in One Belt One Road acquisition focused acquisitions are made despite a climate where M&A overseas investments are under tight regulation and scrutiny. As a result, China's leading SOEs are modifying their strategies to complement this initiative. Acquisitions in One Belt One Road related targets increases favourable approval rates on cross-border M&As deals (Kynge, 2017). Such acquisitions made by China in 2017 that form part of the One Belt One Road initiative include; Singapore's Global Logistics Properties for \$11.6 billion; Europe's leading logistics company Logisor for \$12.25 billion; and \$20.1 billion spent acquiring a number of ports in various geographies.

### **Made in China 2025**

In 2015, China announced its master plan to transform its country into the world's most advanced and competitive manufacturing economy (Wübbecke et al., 2016). With the help of innovative technology China launched its industrial master plan "Made in China 2025." The state council noted that the manufacturing industry had been the engine of China's economic growth since the liberalization of the economy. But in order to keep evolving along with China's accelerated economic transformation, China's manufacturing industry must also undergo an urgent upgrade (Malkin, 2018). As per the state council's announcement, this includes implementing new technology to update China's existing manufacturing sector. Thus facilitating an evolution that will see China's existing capabilities transition to new, strong, and world-class capabilities.

*"Made in China 2025" is the action plan for China's implementation of the first decade of the strategy of manufacturing a strong country: At present, a new round of scientific and technological revolution and industrial transformation has formed a historic convergence with China's accelerated transformation of economic development mode...We must firmly grasp this major historical opportunity, implement the strategy of manufacturing a strong country...and strive to achieve a hundred years of the founding of New China through three decades of efforts. To build China into a manufacturing power that leads the development of the world's*



*manufacturing industry and lay a solid foundation for realizing the Chinese dream of the great rejuvenation of the Chinese nation.”<sup>18</sup>*

The goal is for China to become a leader in manufacturing high-quality, high-tech products. This requires China to become an innovator, building globally recognized brands, and to have modern production facilities (Hsu, 2017). Critically, in order to fulfill this national objective, China has adopted an outward-looking approach to acquire high-tech companies from overseas (Tartar et al., 2018). This is done in order to speed up China’s technological advancement and to leapfrog stages of core technological development (Malkin, 2018). The importance of Made in China 2025 can be observed in Table 2.1 and 2.2. From Table 2.1, high-value manufacturing and the generation of information technology are both listed as strategic and emerging industries by the state council. From Table 2.2, it is observed that cross-border investments directed at generating high-tech and advanced manufacturing are greatly encouraged. As a result, SOEs have been tasked with performing overseas acquisitions that are aimed at acquiring cutting-edge technology that can generate large-scale knowledge transfer in the long run.

As a result of the direct guidance and favourable support by the state, a vast volume of cross-border high-technological manufacturing acquisitions by SOEs was witnessed in primarily in Europe and North America. It is argued that the acquisitions undertaken are a direct subsequent of the Made in China 2025 program. Such deals (as per section 2.4) include: the manufacturing of electric components (Weichai Power’s acquisition of Germany’s Linde Hydraulics for \$358 million in 2012); the manufacturing of air and spacecraft related machinery (AVIC’s acquisition of US Hilite International for \$2.8 billion in 2014); and the manufacturing of special purpose equipment (Zhuzhu CSR Times’ acquisition of UK’s Specialist Machine Development for \$178 million in 2015).

---

<sup>18</sup> State Council. *Notice of the State Council on Issuing the “Made in China (2025),”* <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>>, 2015.

## **2.3 The dynamics of cross-border M&A by Chinese SOEs: Descriptive data analysis**

### **2.3.1 Data screening methodology**

All data pertaining to this chapter has been collected from the Zephyr Bureau van Dijk database. The M&A deals covered in this chapter, took place over a 15-year period beginning from 01 January 2002 up until 31 December 2016. All deals involve Chinese SOEs that have completed cross-border transactions, i.e., acquired foreign assets.

The data was screened using the following conditions as per Fuller, Netter, & Stegemoller (2002)'s research:

- 1 The acquirer has to be an SOE where SASAC has the majority shareholding;
- 2 The acquirer has acquired more than 50 percent of the target firm;
- 3 The target can either be public, private or an SOE;
- 4 The target firm cannot be from HK or any offshore financial centres;
- 5 The deal value has been disclosed;
- 6 The deal is either a merger or acquisition;
- 7 The acquiring company needs to be publicly traded for six months before acquiring the target firm (if acquiring company is publicly listed);
- 8 Acquiring company has at least 12 months post recorded performance.

The final sample included 115 cross-border transaction deals.

### **2.3.2 Geographical distribution by the target region**

Table 2.4 reports the geographic distribution of M&A activity by SOEs. The deals have been ordered into their corresponding FYP periods, as well as sorted by the total number of deals (Panel A) and the total value of the deals (Panel B).

As shown in Panel A of Table 2.4, in terms of the number of cross-border M&A deals, it can be observed that the preferred region for Chinese SOE cross-border

M&A investments varies dependent on the prevailing FYP period. During the first period (10<sup>th</sup> FYP: 2002 – 2005), a total of 16 deals were observed. The most targeted regions for investments were Europe and Asia with each continent equally accounting for 31.3% of the total observed deals during period 1. This was followed by North America, accounting for 25% of the total deals. Finally, South America and Oceania both equally covered 6.3% of the total number of deals observed. In the second period (11<sup>th</sup> FYP: 2006 – 2010), a total of 20 deals were undertaken. The preferred region for cross-border M&A by Chinese SOEs during this time frame was Asia. The Asian deals accounted for 30% of the total observed deals. This was followed by Europe, with the number of deals summing up to 25% of the deal total, and then North America with 20%. Following this is South America and Oceania each equally accounting for 10% of the deal total. Lastly, deals undertaken in Africa were also noted, accounting for 5% of the total deals observed in period 2. In the last observed third period (12<sup>th</sup> / 13<sup>th</sup> FYP: 2011- 2016), a total of 79 deals were seen. The preferred region by Chinese SOEs for cross-border M&As by far was Europe. During period 3, the preferred region for cross-border M&As conducted by Chinese SOEs was Europe by a significant margin. Transactions in Europe accounted for more than half of the total observed deals at 59.5%. This was followed by South America with 13.9%; Asia with 11.4%; North America with 10.1%; Oceania with 3.8%; and finally, Africa with 1.3% of the observed deals during period 3.

In studying Panel A, notable increases in the number of investments directed at Europe (31.3%, 25%, and 59.5%) and South America (6.3%, 10%, 13.9%) during all three periods were evident. Collectively, 57 out of a total 115 deals took place in Europe, thus supporting the view that the region is a favoured destination for Chinese SOEs' to undertake M&As. Europe is the largest producer of manufactured goods and services (European Commission, 2017). China views Europe as an incredibly desirable trading partner and also, as a fundamental region needed to acquire the sophisticated resources required to fulfill national development plans - particularly with regards to the Made in China 2025 strategy (Connor, 2018). Of the observed deals in Europe, deals in manufacturing were by far the most visible. A total of 37 deals across the three periods with a combined value of \$16.77 billion can

be seen.<sup>19</sup> It is argued that the vast increase in manufacturing deals corresponds to China's national strategy of technology and innovation. Such noticeable high-tech manufacturing-related investment include; Aerospace Hi-Tech acquiring Luxembourg's IEE International Electronic and Engineering (electronic instruments of testing, measuring, and navigation) in 2016 for \$210 million; and Aviation Industry Corporation China (AVIC) acquiring Spain's Aritex Cading (manufacturing of special purpose machinery; engineering in scientific and technical industrial activities) in 2016 for \$113 million.

In terms of the increase in transactions observed in South America, the observed deals are primarily focused on the natural resources industry. Collectively across the three periods, 57.1% of the deals seen in South America (with a total value of \$4.9 billion) were in natural resources.<sup>20</sup> Examples of such deals include; Yunnan Chihong acquiring Compania Minera Amazona in Bolivia in 2013 for \$42 million; and China Molybdenum acquiring Anglo American's division in Brazil for \$1.7 billion in 2016. The rise of China's economy and the demand for securing natural resources has resulted in the strengthening of Sino-Latin American relations (Gonzalez-Vicente, 2012). The growing importance of South America as a region to China, was highlighted in 2014 when Xi Jinping strengthened relations with South America through establishing CELAC (Community of Latin America and Caribbean States) in 2015. Xi Jinping also highlighted the need for collaboration between the two regions through the "*1+3+6 Cooperation Framework*", which included boosting trade connections in energy and resources.

*"...1 means "one plan," referring to the establishment of the China-Latin American Countries and Caribbean States Cooperation Plan (2015-2019) with the aim of achieving inclusive growth and sustainable development. "3" means "three engines," referring to promoting the comprehensive development of China-Latin America practical cooperation with trade, investment, and financial cooperation. "6" means "six fields," referring to boosting China-Latin America industry connection with energy and resources, infrastructure construction, agriculture, manufacturing,*

---

<sup>19</sup> Calculated by the author based on Zephyr M&A database – see Appendix 1.1, Panel A of Table 2 and 3.

<sup>20</sup> Calculated by the author based on Zephyr M&A database – see Appendix 1.1, Panel D of Table 2 and 3.

*scientific and technological innovation, and information technologies as cooperation priorities.”*<sup>21</sup>

From Panel B of Table 2.4, the total value of the deals from each period can be deduced. In period 1, the total amount of cross-border deals is USD \$1.33 billion. Of this total, 55% of the total deal value came from Asia. This is followed by 23.7% from Europe, 11.9% from North America, 7.5% from South America, and 1.8% from Oceania. This indicates that, even though Asia had the same number of deals as Europe during the discussed period, the value of the Asian transactions was over twice that completed in Europe. M&As undertaken in Asia were the most high-value deals during both period 1 and 2.

When further examining this, deals in manufacturing and natural resources can be seen to be in the majority. Such manufacturing deals in this period include; Beijing Oriental Electronic Technology Group's acquisition of South Korea's Hynix Semiconductor Inc. TFT LCD Business in 2003 for \$380 million – which was also the largest deal conducted during period one.<sup>22</sup> Examples of Asian natural resource deals included; China Petroleum & Chemical Corporation's acquisition of Russia's Udmurtneft OAO in 2006 for \$3.5 billion – which was also the largest deal concluded in period two.<sup>23</sup>

During period 2, the total value of the observed deals was USD \$9.18 billion. Again, deals completed in Asia were of the highest value (\$5.47 billion), accounting for 59.6% of the total observed value. Despite only having two documented deals during period 2, transactions completed in Oceania accounted for \$3.11 billion, corresponding to 33.9% of total deal value. This observation can be primarily attributed to Yanzhou Coal Mining Co. Ltd's acquisition of Felix Resources Ltd (natural resources) in 2009 for \$2.9 billion. Following this is Europe with 5% of the total observed deal value. Next is North America with 1.1%, then Africa with 0.2%, and finally, South America with 0.1%. In period 3, the total value of the deals was

---

<sup>21</sup> Ministry of Foreign Affairs of the People's Republic of China (FMPRC). *Xi Jinping Attends China-Latin America and the Caribbean Summit and Delivers Keynote Speech*. <[https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpzxcxjzgjldrdlchwdxbxagtwnrlgbjxgsfwbcxzlldrhw/t1176650.shtml](https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpzxcxjzgjldrdlchwdxbxagtwnrlgbjxgsfwbcxzlldrhw/t1176650.shtml)>, 2014.

<sup>22</sup> See Appendix 1.1, Panel A of Table 4.

<sup>23</sup> See Appendix 1.1, Panel B of Table 4.

USD \$87.88 billion. Of this total, Europe accounts for 36.1% of the total deal value (corresponding to \$31.72 billion). This is followed by North America with 26.7% (corresponding to \$23.49 billion). South America and Asia collectively accounted for 17.5% (corresponding to \$15.39 billion and \$15.37 respectively). Finally, transaction completed in Oceania accounted for 2.2% of the total deal value during period 3.

From period 3, it can be seen that the value of deals observed in North America, as a percentage of the total value spent by Chinese SOEs on cross-border M&As increased significantly. During period 3 this percentage was 26.7% in comparison to the periods 1 and 2 (11.9% and 1.1% respectively). When examining the observed deals across North America during period 3, 62.5% of the North American deals can be noted in the manufacturing industry.<sup>24</sup> Such deals included, AVIC acquiring Hilite (manufacturing of turbine engines) for \$643 million in 2014; and Hisense electric's acquisition of Sharp Electronic (Mexico) for \$5.5 billion in 2015. These transactions reflect the traditional Chinese interest of heavy industry equipment manufacturing whilst transitioning towards higher value adding technologies. As supported by the 13<sup>th</sup> FYP, these types of acquisitions are essential to foster new areas of economic growth.

*“In fostering new areas of economic growth, we will spur innovation and industrial application in emerging, cutting-edge fields such as additive manufacturing, intelligent systems, next-generation aviation equipment, comprehensive service systems for technologies...”*<sup>25</sup>

Therefore, the acquisitions observed in North America are in-line with the targets stipulated by the states' FYPs and the State Council's Measures Guide (catalogue) on overseas investments. Moreover, these acquisitions correspond to the "encouraged" category of the state council's catalogue (as per Table 2.2).

---

<sup>24</sup> Calculated by the author based on Zephyr M&A database – see Appendix 1.1, Panel C of Table 2.

<sup>25</sup> National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

Table 2.4. Regional distribution of Chinese SOEs' cross-border M&A targets by number of deals and value of deals

Panel A. Number of cross-border M&As											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Region	No. of deals	%	Rank	Region	No. of deals	%	Rank	Region	No. of deals	%
1	Europe	5	31.3	1	Asia	6	30.0	1	Europe	47	59.5
1	Asia	5	31.3	2	Europe	5	25.0	2	South America	11	13.9
3	North America	4	25.0	3	North America	4	20.0	3	Asia	9	11.4
4	South America	1	6.3	4	South America	2	10.0	4	North America	8	10.1
4	Oceania	1	6.3	4	Oceania	2	10.0	5	Oceania	3	3.8
6	Africa	-	0.0	6	Africa	1	5.0	6	Africa	1	1.3
Total		16	100	Total		20	100	Total		79	100

Panel B. Value of cross-border M&As (100 mil USD)											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Region	Value	%	Rank	Region	Value	%	Rank	Region	Value	%
1	Asia	7.3	55.0	1	Asia	54.7	59.6	1	Europe	317.2	36.1
2	Europe	3.2	23.7	2	Oceania	31.1	33.9	2	North America	234.9	26.7
3	North America	1.6	11.9	3	Europe	4.6	5.0	3	South America	154.0	17.5
4	South America	1.0	7.5	4	North America	1.0	1.1	4	Asia	153.7	17.5
5	Oceania	0.2	1.8	5	Africa	0.2	0.2	5	Oceania	19.0	2.2
6	Africa	-	0.0	6	South America	0.1	0.1	6	Africa	0.02	0.0
Total		13.3	100	Total		91.8	100	Total		878.8	100

Data source: Zephyr M&A database. Constructed by the author

### **2.3.3 Geographical distribution by target country**

Table 2.5 reports the geographic distribution, by target country, of cross-border M&A deals undertaken by Chinese SOEs. These deals have been arranged into their respective periods and also, sub-categorized into sections that highlight the total number of deals (Panel A) and the total value of deals (Panel B). Panel A in Table 3.2, provides insight into the specific country that has been most targeted by Chinese SOEs for cross-border M&As. During period 1, it can be seen that, the United States was the most targeted country, accounting for 18.8% of the total number of deals. This is followed by South Korea and Germany, where they each have a total of 12.5% of the total number of deals during period 1. The deals completed in these three countries were all manufacturing related acquisitions.

From period 2, the majority of the deals took place in Canada and accounted for 15% of the total number of deals. These transactions were primarily in manufacturing, with the exception of one financial deal - which was: Industrial and Commercial Bank of China's (ICBC) acquisition of Bank of East Asia (Canada division) in 2010 for \$75.5 million. It is argued that the strategic placement of this financial institution offered access to a greater network of profitable investment portfolios within the North American region (John, 2017). This is evident by the follow-up acquisition of ICBC and Bank of East Asia (USA division) in 2012 for \$140 million.

During period 3, both Germany and the United Kingdom accounted for 12.7% of the total recorded M&As by SOEs respectively. Collectively, this accounts for over a quarter the completed transactions during period 3. This is followed by the United States, France, and the Netherlands; with each country's percentage of the total transactions being 7.6% of the deals completed over the course of period 3. A further trend that merits note from period 3 is the dominance of European targets. 4 out of 5 listed countries reside within the EU (Germany, United Kingdom, France, and the Netherlands). This was most likely due to the signing of the EU-China 2020 Strategic Agenda for Cooperation in 2013. As this trade agreement reaffirmed the desire for greater synergy between Sino-EU relations. Therefore, the agreement acted to enhance cooperation and create investment opportunities for both regions



over the next decade (EEAS, 2013). The strategic agenda also ensured that bi-lateral investment deals, (including M&A) would enhance market opportunities through more favourable investment rights (European Commission, 2017).

Of the deals observed in Europe, as mentioned previously in section 2.3.2, the manufacturing industry was the most targeted industry. Of these manufacturing deals, Germany has received the most attention as targets by Chinese SOEs. Germany's manufacturing industry has a long legacy and reputation for producing high-quality products using technologically advanced techniques (Theil, 2012). China's desire to increase its prominence in the technology industry is evidenced by their 'Made in China 2025' initiative. Synergies can be drawn comparing the latter with Germany's Industry 4.0 strategy (announced in 2013), the focus of which is also being to develop smart factories (Erwin, Glunz, & Tsavlakidis, 2017). Specific manufacturing acquisitions made in Germany, included that of Wechai Power acquiring Linde Hydraulics (manufacturing of engines and turbines) in 2012 for \$358 million; Zoomlion acquiring M-Tec Mathistechnik (manufacturing of special purpose machinery) in 2013 for \$2 billion; and Anhu Zhongding acquiring Weigu GMBH (manufacturing of rubber products) for \$102 million in 2015.

From Panel B of Table 2.5, during period 1, it can be seen that South Korea accounted for 29.3% of the total deal value over this time. This observation can primarily be attributed to the deal: Beijing Oriental Electronic Technology Group's acquisition of Hynix Semiconductor Inc. TFT LCD Business in 2003 for \$380 million. This is then followed by Germany with 15% of transactions and; the United States with 9% of the completed deal value over period 1. Both of the latter two percentages are related to chemical manufacturing transactions, namely Weifang Yaxing Chemical's two acquisitions made in 2005. The first acquisition was that of Bayer Chemicals AG (Texas) for \$120 million, and the second, Germany's Bayer AG Porofofor Blowing Agents for \$121 million.

During period 2 it can be noted that Russia accounted for 38.8% of the total deal value. This is mainly down to China Petroleum & Chemical Corporation's acquisition of Udmurtneft OAO (natural resources) in 2006 for \$3.5 billion. Following this is Australia with 33.9%, this observation can be attributed to

Yanzhou Coal Mining Co. Ltd's acquisition of Felix Resources Ltd (natural resources) in 2009 for \$2.9 billion. In the third rank is Singapore with 17.6% which can be primarily be explained by Huangeng Power's acquisition of Singapore's Sinosing Power in 2008 for \$1.6 billion. Lastly, transactions undertaken in the Netherlands and Indonesia both each accounted for 3.0% respectively. From the above, it is clear that natural resources and energy were fundamental acquisition targets for Chinese SOEs' cross-border M&As during period 2. This highlights the substantial urbanization initiatives and aggressive economic growth of China during this period. Securing natural resources has been a consistent national agenda for China.

*"On the basis of domestic resources, the energy supply capacity building shall be strengthened... keep promoting the capacity of independent control over energy and lessen the over-reliance on foreign countries for oil. "*<sup>26</sup>

Over the course of period 3, transactions completed in the United States accounted for 20.5% of the total deal value, followed by the United Kingdom with 15.7%. Transactions in the United States were again focused on the manufacturing and the financial industries. A notable deal in the United Kingdom was that of Hangzhou Hikvision Digital Technology Co. Ltd acquiring the UK's Pyronix Ltd (software publishing and data processing) in 2016 for \$6 billion. This transaction in the technology industry was supportive of China's transitional agenda focused on seeking new information technology. Following these acquisitions, noteworthy activity also occurred in Brazil and Turkey. Here, deals accounted for 13.2% and 9.7% of the total acquisition value respectively. Key acquisitions observed in these countries were in the financial industry. Such acquisitions include China's Bank of Communications Co Ltd's acquisition of Brazil's Banco BBM SA (finance) in 2016 for \$8.37 billion; and also, ICBC's acquisition of Turkey's Tekstil Bankasi SA for \$8.23 billion in 2015. Both of the latter two deals were the largest, in terms of transaction value, that was completed over the course of period 3.<sup>27</sup>

---

<sup>26</sup> State Council. *Notice of the General Office of the State Council on Issuing the Program of Action for the Energy Development Strategy (2014-2020)*,  
<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=5f8e90c006bb1fa8bdfb&lib=law>, 2014.

<sup>27</sup> See Appendix 1.1, Panel C of Table 4.

Table 2.5 Top 5 target countries of Chinese SOEs' cross-border M&As by number of deals and value of deals

Panel A. Number of cross-border M&As											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Country	No. of deals	%	Rank	Country	No. of deals	%	Rank	Country	No. of deals	%
1	United States	3	18.8	1	Canada	3	15.0	1	Germany	10	12.7
2	South Korea	2	12.5	2	Australia	2	10.0	1	United Kingdom	10	12.7
2	Germany	2	12.5	2	Colombia	2	10.0	3	United States	6	7.6
-	-	-	-	2	United Kingdom	2	10.0	3	France	6	7.6
-	-	-	-	2	Japan	2	10.0	3	Netherlands	6	7.6
Others		9	56.3	Others		9	45.0	Others		41	51.8
Total		16	100	Total		20	100	Total		79	100

Panel B. Value of cross-border M&As (100 mil USD)											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Country	Value	%	Rank	Country	Value	%	Rank	Country	Value	%
1	South Korea	3.9	29.3	1	Russia	35.6	38.8	1	United States	179.9	20.5
2	Germany	2.0	15.0	2	Australia	31.1	33.9	2	United Kingdom	137.9	15.7
3	United States	1.2	9.0	3	Singapore	16.1	17.6	3	Brazil	115.7	13.2
-	-	-	-	4	Netherlands	2.8	3.0	4	Turkey	84.9	9.7
-	-	-	-	4	Indonesia	2.8	3.0	5	Germany	70.1	8.0
Others		6.2	46.6	Others		3.3	3.6	Others		290.2	33.0
Total		13.3	100	Total		91.8	100	Total		878.8	100

Data source: Zephyr M&A database. Constructed by the author

### 2.3.4 Industry distribution of Chinese SOEs' cross-border M&A

Table 2.6 represents the industry distribution of China's SOEs cross-border M&A activity from 2002 - 2016. The deals have been ordered into their respective periods. The total number of the transaction can be seen in Panel A, and the total value of the deals is seen in Panel B.

From Panel A of Table 2.6, during period 1, it can be observed that 50% of the total number of deals during this time were within the manufacturing sector. This is followed by acquisitions in the natural resources industry, which accounted for 43.8% of transactions over this period. The financial industry was linked to 6.2% of deals over the course of period 1. From period 2, it can be seen that deals related to the manufacturing industry correspond to 40% of the total number of observed deals. Followed by the natural resources industry with a total of 30%. Next is the finance industry with 20%, and last is the retail industry with 5%. During period 3, manufacturing again ranks in the first position with 51.9% of the total number of deals. Followed by the natural resource industry with 22.8% of the total observed deals. The finance industry related deals accounted for 11.4%. Next is the retail industry with 6.3%, which is followed by the technology industry with 3.8% of the total number of deals during this period. Overall from Panel A, it can be seen that manufacturing-related deals are consistently targeted with every period. Natural resources deals are gradually being less targeted. Financial deals are becoming increasingly more common. Retail and technology deals are also emerging.

Across the three periods, the manufacturing industry had a collective total of 49.6% of the total number of deals.<sup>28</sup> It is evident from the substantial amount of cross-border M&A deals, that the manufacturing industry has been at the core of the Chinese economy since the economic reform (Naughton, 2006). It is evident that the state views this industry as being central to China's economic boom and has been instrumental in the rejuvenation of China.

---

<sup>28</sup> Calculated by the author based on Zephyr M&A database – see Appendix 1.1, Table 1.

*“Since the opening of industrial civilization in the middle of the eighteenth century, the history of the rise and fall of the world powers and the history of the struggle of the Chinese nation have repeatedly proved that without a strong manufacturing industry, there is no nation and national prosperity. Building an internationally competitive manufacturing industry is the only way for China to upgrade its overall national strength, safeguard national security, and build a world power”*<sup>29</sup>

Significant deals in the manufacturing industry included transactions related to chemical manufacturing, such as: China’s Nantong Jiangshan Agrochemical & Chemicals Co Ltd acquisition of Thailand’s Ladda Group Holdings Co Ltd for \$5.9 billion in 2013. However most notably, particularly seen in period 3, is the transition towards high-value technology manufacturing related acquisitions. For example, the manufacturing of special purpose equipment (Zhuzhu CSR Times’ acquisition of UK’s Specialist Machine Development for \$178 million in 2015); the manufacturing of air and spacecraft related machinery (AVIC’s acquisition of US Hilite International for \$2.8 billion in 2014); and the manufacturing of electric components (Weichai Power’s acquisition of Germany’s Linde Hydraulics for \$358 million in 2012). From this, it is argued that as China continues with its economic development, deals in high-value manufacturing are becoming increasingly important. Since the announcement of 13<sup>th</sup> FYP, slogans such as “科技强国” / “*keji qiangguo*” translating to “technology strengthens and empowers the nation” have been used to emphasize and encourage the growth of China’s domestic technology industry. Resultantly, the Chinese technology industry has been deeply integrated with their manufacturing sector, with the objective of generating new information technology in order to stimulate new manufacturing innovations and industrial changes.

*“At present, a new round of scientific and technological revolution and industrial transformation has formed a historic convergence with China’s accelerated transformation of economic development mode, and the international industrial division of labor is being reshaped. We must firmly grasp this major historical opportunity, implement the strategy of manufacturing a strong country in accordance and strive to achieve a hundred years of the founding of New China through three decades of efforts. To build China into a manufacturing power that leads the development of the world’s manufacturing industry and lay a solid*

---

<sup>29</sup> State Council. Notice of the State Council on “Made in China 2025,”  
<<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>>, 2015.

*foundation for realizing the Chinese dream of the great rejuvenation of the Chinese nation.*”<sup>30</sup>

In terms of the value of the acquisitions made by Chinese SOEs, from Panel B of Table 2.6 period 1 consisted of deals in the manufacturing industry, accounting for the majority of the total with 50.3% of the value. This is followed by the natural resources industry with 49.4%. Finally, deals in the finance industry accounted for 0.3% of the total deal value. During period 2, the natural resources industry totalled 88.2% of the deal value total. This indicates that even though the number of natural resource deals ranked second, the deal values, in fact, were substantially higher than those seen in manufacturing. The largest deal during period 2 was China Petroleum & Chemical Corporation's acquisition of Russia's Udmurtneft OAO (extraction of petroleum) in 2006 for \$3.5 billion. The natural resource industry is then followed by the finance industry with a total of 6.2% of the total value of deals. The manufacturing industry accounted for 4.5%, and lastly, retail industry acquisitions accounted for 0.04%. From period 3, it can be seen that deals related to manufacturing were of substantial value compared to other industries. Manufacturing held 48.4% of the total value in deals during period 1. This was followed by deals related to finance with a total of 26.1%. Natural resources deals were valued at 15.9% of the total deal value. Technology deals accounted for 7.1%, and retail deals corresponded to 2.5% of the total value of deals during period 3.

As per the significant acquisitions in the natural resource industry, collectively across the three periods, the natural resource industry accounted for 28.2% of the total value of deals.<sup>31</sup> Of note, the value of these natural resources transactions was substantially higher than all other industries during period 2. Key examples: include Yanzhou Coal Mining Co Ltd's acquisition of Australia's Felix Resources (coal mine) in 2009 for \$2.9 billion; and Huaneng Power International Inc's acquisition of Sinosing Power PTE Ltd (electricity) in 2008 for \$1.6 billion. This period (2006 – 2010) correlates to the peak of China's economic boom during which the Chinese

---

<sup>30</sup> State Council. *Notice of the State Council on "Made in China 2025,"*

<<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>>, 2015.

<sup>31</sup> Calculated by the author based on Zephyr M&A database – see Appendix 1.1, Table 1.

economy was growing at an average annual rate of 11.3%.<sup>32</sup> With a population of 1.4 billion people and a rapidly growing middle class, China consumes one-quarter of the global supply of energy each day. China has heavily relied on imports to fuel its economic growth during the past decades (Butler, 2017). As a result, acquisitions in natural resources are a necessity to sustain the growing needs of the population. As per the 13<sup>th</sup> FYP, the strengthening of energy security and self-sufficiency in this industry, is a crucial national objective.

*“We will strengthen onshore and offshore oil and gas exploration and exploitation, take well-ordered measures to relax control over mining rights, and actively exploit natural gas, coal seam gas, and shale oil and gas. We will move forward with the transformation and upgrading of the oil refining industry, implement an action plan for improving the quality of refined petroleum products, and develop new clean oils such as biofuels.”*<sup>33</sup>

Lastly, in observing Panel B of Table 2.6, periods 2 and 3, it was noted that the finance-related acquisitions saw significance growth (6.2% and 26.1% respectively in terms of the total deal value). From this, the greater internationalization of state banks can be seen, along with the increasingly more focused strategy of expanding into the global financial market through acquisitions. Evidently, two largest deals in terms of value in period 3 were both finance related i.e., Bank of Communications Co Ltd’s acquisition of Brazil’s Banco MMB SA for \$8.4 billion in 2016; and Industrial and Commercial Bank of China Ltd’s acquisition of Turkey’s Tekstil Bankasi SA for \$8.2 billion in 2015.<sup>34</sup> It is further argued that by successfully acquiring a financial institution, it can facilitate entry into the host market as well as providing access to the bank’s investment portfolio (Larson, 2013). This is further supported by Nasiripour (2012) who pointed out that by ICBC acquiring Canada’s Bank of East Asia, the strategic placement of the bank paved the way for Chinese firms to further secure access to lucrative investments opportunities in North America.

---

<sup>32</sup> Calculated by the author based on data from the World Bank.

The World Bank. *GDP growth annual percentage*.

<<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN>>, 2018.

<sup>33</sup> National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People’s Republic of China (2016 – 2020)*,

<<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

<sup>34</sup> See Appendix 1.1, Panel C of Table 4.

Table 2.6. Industry distribution of Chinese SOEs' cross-border M&A targets by number of deals and value of deals

Panel A. Number of cross-border M&As

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Country	No. of deals	%	Rank	Country	No. of deals	%	Rank	Country	No. of deals	%
1	Manufacturing	8	50	1	Manufacturing	8	40	1	Manufacturing	41	51.9
2	Natural resources	7	43.8	2	Natural resources	6	30	2	Natural resources	18	22.8
3	Finance	1	6.2	3	Finance	4	20	3	Finance	9	11.4
	Retail	-	-	4	Retail	1	5	4	Retail	5	6.3
	Technology	-	-		Others	1	5	5	Technology	3	3.8
	Others	-	-		Technology	-	-		Others	3	3.8
Total		16	100	Total		20	100	Total		79	100

Panel B. Value of cross-border M&As (100 mil USD)

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Country	Value	%	Rank	Country	Value	%	Rank	Country	Value	%
1	Manufacturing	6.7	50.3	1	Natural resources	81.0	88.2	1	Manufacturing	425.1	48.4
2	Natural resources	6.6	49.4	2	Finance	5.7	6.2	2	Finance	229.2	26.1
3	Finance	0.03	0.3	3	Manufacturing	4.2	4.5	3	Natural resources	139.9	15.9
	Retail	-	-	4	Other	0.8	0.9	4	Technology	62.1	7.1
	Technology	-	-	5	Retail	0.04	0.04	5	Retail	21.8	2.5
	Other	-	-		Technology	-	-		Other	0.8	0.1
Total		13.3	100	Total		91.8	100	Total		878.8	100

Data source: Zephyr M&A database. Constructed by the author



## 2.4 Conclusion

This chapter began with providing a contextual analysis to facilitate an understanding on the role of the state on the distribution of cross-border M&As conducted by Chinese SOEs. In doing so, the formal state policies, which act to encourage Chinese SOEs' cross-border M&A activity, were firstly discussed. SOEs (considered the national champions) were chosen to be the first Chinese enterprises to go overseas. Essentially considered as an organizational agent of the state, SOEs are critical to national rejuvenation. SOEs are directed by the party, which means the state can, therefore, control the direction of cross-border M&As to ensure that national development plans are met. Since China has deepened economic reform, cross-border M&As has become progressively larger (in terms of volume and value). This could be a result of a number of state policies ("Go out"), strategies (state guided overseas investment categories), and programs (One Belt One Road, Made in China 2025) – all of which have acted to greatly facilitated the M&A activity.

The "Go out" policy was developed to encourage Chinese enterprises to make overseas investments in order to exploit foreign resources to establish foreign operations, in addition to affording greater international influence. Resultantly, the state created various state agencies (e.g., SASAC to prevent losses of state assets) and a supportive framework (e.g., favourable loans for M&A activity) to motivate Chinese enterprises to go overseas. In order to direct and regulate cross-border M&A activity, the state council and NDRC have released a "catalogue guide" and a "sensitive" list. This allows the state to have greater control over the direction of cross-border M&As and to ensure all overseas investments are in line with the FYPs. The state council has specifically identified three clear categories for investment - those that are "prohibited" "restricted" and "encouraged." SOEs and all Chinese enterprises have to follow these guides in order to for their overseas M&A deals to be approved. As a result, all organizations have to adapt their cross-border M&A strategies to conduct acquisitions that are in-line with the state specified fields. Key investments that are on the encouraged list include those related to current key national programs – One Belt One Road and Made in China 2025.

This chapter has also collected, and outlined data pertaining to cross-border M&A deals undertaken by Chinese SOEs during the course of a 15-year period, beginning in 2002 through to 2016. Data was arranged into three distinct periods; 2002-2005; 2006-2010 and; 2011-2016. For the sake of better analysis and context, each period reflects a time-frame linked to one of China's FYPs. All deals were analyzed by their regional (continent and country level) and industrial distribution, in addition to being sorted according to the total number of deals and value of the transactions. From the resultant tables generated from the data, the following observations are made:

In terms of the geographic distribution of cross-border M&As conducted by Chinese SOE's over the course of period 1 (2002 – 2005: 10<sup>th</sup> FYP) and period 2 (2006 – 2010: 11<sup>th</sup> FYP); the majority of the cross-border targets were acquired in Asia, Europe, and North America in terms of the total number of deals. During period 3 (2011- 2016: 12<sup>th</sup> / 13<sup>th</sup> FYP), Europe was the preferred region for cross-border M&A targets, followed by South America, and Asia. Concerning overall deal value, completed transactions in period 1, saw those in Asia being significantly higher in value than those observed in either Europe or North America. Similarly, throughout period 2 deals in Asia were also of the highest value. Lastly, period 3 was overall more Europe centric in terms of acquisition targets and accounted for the majority of deal value. This is followed by North America, and then South America. An interesting trend worth highlighting in period 3, was the increased emphasis on South America. This is primarily because of the regions vast natural resource reserves and the strategic importance of the region to the Chinese government and SOEs.

At a country level, during period 1, it can be seen that the United States is the most targeted country in terms of total deals. This is followed by South Korea and Germany. Deals completed over the course of period 1 were primarily conducted in the manufacturing industry. During period 2, Canada ranked as the country with the most number of completed M&As, with notable acquisitions in the financial sector offering a wider regional network and access to local investment portfolios. Period 3 saw Germany and United Kingdom gain the most attention from Chinese SOEs for high-value M&A transactions. Distinctively in period 3 was the dominance of European targets. The focus on European targets was likely a result of the EU-China

2020 Strategic Agenda for Cooperation, which was signed in 2013, reaffirming the intent to strengthen and increase Sino-EU trade relations.

Regarding distribution according to industry, manufacturing related acquisitions are consistently observed throughout each of the discussed periods. In terms of the value of these deals, apart from period 2, transactions undertaken in manufacturing were collectively of the highest overall value. Some significant observations can be noted in period 3, with particularly noteworthy deals occurring in the field of advanced technological manufacturing. It was argued that these transactions were motivated by China's ambition to upgrade their manufacturing capabilities and fall very much in-line with the objectives set out in China's Made in China 2025 strategy. Further notable acquisitions that are consistent in all three periods include those in natural resources. Evident in China's FYPs, is the nation's focus on acquiring both resource and energy security to sustain China's economic growth.

## **Chapter 3**

### **Literature Review and Theoretical Background: The formal and informal institutions and the dynamic interactions in the context of China**

### **3.1 Introduction**

This research will use a qualitative grounded theory approach (to be discussed in further detail in Chapter 4) to elicit a detailed China-specific conceptual framework capable of explaining the cross-border mergers and acquisitions (M&As) phenomenon observed by Chinese State-Owned Enterprises (SOEs). To begin with, this chapter will begin with presenting the conventional motivations M&As, followed by why these traditional motivations are lacking in explaining China's cross-border M&As by SOEs. This chapter will then provide a critical review of existing literature on the motivations for Chinese cross-border M&A. Primarily, literature has addressed the role of the institution in motivating M&A using quantitative research methods which have highlighted the supporting role of the institution in cross-border M&As. However, this stream of research has the tendency to overlook the significance of the role of the state in cross-border M&A transactions. That is to say, at present, the literature is lacking in taking a specific focus on the significance of the interaction of China's informal and formal institution. Secondly, the dynamics between the state – SOEs – SOE leaders has been overlooked, and how this relationship can influence the behaviour of SOEs, of which, the subsequent outcome is witnessed through cross-border M&A.

In responding to the above, this chapter will present the institutional theory and then illustrate how it can be extended to the pattern and behaviour of Chinese SOEs' cross-border M&A. The institution itself is comprised of the formal and informal institutions. The formal institution is related to how social order is maintained through formal rules, laws, and guidelines on how society should behave and what actions are deemed socially acceptable. The informal institution, on the other hand, is made up of implicit values that can affect the cognitive mind-set on how society is perceived. This includes beliefs, values, and morals. Both institutions are dynamic and interact with one another. The relationship between the formal and informal institutions will be explored at the national, organizational and individual levels. The institutional conceptual framework will then be applied to the China context with an illustration of how the informal institutional beliefs can influence the formal

institution of the central government. And following on from this, how the central government formally directs the SOEs and SOE leaders respectively.

### **3.2 Conventional motivations for cross-border M&A**

Previous literature has mainly focused on the reasons for cross-border M&A at the organizational level. It has been argued that traditionally firms would perform an overseas M&A to encourage positive synergy through value creation (Seth, 1990). Synergies require cooperation and coordination of both firms' assets (Farrell & Shapiro, 2000). From doing this, it allows superior production capabilities thus allowing output/cost configurations that would not have otherwise been possible (Farrell & Shapiro, 2000). Value creation and thus synergy is achieved by ensuring the best use of the combination of both firm's productive resources in the presence of environmental constraints and opportunities (Chatterjee, 1986). This means close integration of strategic assets, and a diffusion and transfer of the know-how between the merging firms (Roller et al., 2006). Typically it has been argued that maximizing value creation can be explained through the following examples and as summarized in Table 3.1.

#### **3.2.1 Economies of scale and scope**

If firm A buys related firm B, it could be argued that the firm is paying for the economies of scale/scope that the combined entity will realize. An acquisition in a related field may involve utilization of economies of scale and scope in production and distribution. This in turn, can result in reduced costs and operational synergies (Chatterjee, 1986). Any operational synergy the acquirer can potentially generate from the M&A is correlated to the size of the target firm. Therefore it is argued that the synergy is limited to the economies of scale/scope that the target firm is capable of generating (Chatterjee, 1986).

A firm is said to have economies of scale when the average cost of production decreases as output increases (Salter & Weinhold, 1978). Economies of scale are present when there are gained efficiencies that arise from expanding the production

of a specific product (Singh & Montgomery, 1987). For example, pharmaceutical companies will typically merge together in order to spread the enormous overhead costs associated with sophisticated research and development (R&D) for new drug development (Angelis & Kanavos, 2016). Both companies can realize economies of scale from the merger by avoiding duplication of costs. This means the acquired and existing resources are being more fully utilized. A firm can also benefit by acquiring a related firm in the production stage, therefore, reducing the cost of production by performing multiple stages of the production directly and generating greater efficiency gains (Roller et al., 2006). For example, vertical acquisitions of production related assets such as raw materials or components can help organizations scale their economies in areas such as purchasing and inventory (Motis, 2007). Benefits from economies of scale can occur in traditional functional areas such as manufacturing, R&D, and selling, as well as more general areas such as administration and finance (Lambrecht, 2004).

Economies of scope is said to be achieved by the cost of producing two goods by a single multi-product firm is less than the combined cost of producing these two goods by two-single product firms (Seth, 1990). This is made possible by acquiring the specialized know-how or the intangible assets which are seen as complementary skills. When combining these skills, it can increase the efficiency in producing a variety of goods which can, therefore, lower the total cost to produce each unit (Roller et al., 2006). Such value creation can come from businesses sharing their centralized functions, and a better way of organizing economic activity (Teece, 1980). For example, scope economies can be operating in a car manufacturing facility which is used to assemble both cars and trucks. When capacity is increased through the production of two or more products, scope economies are provided through the utilization of indivisible shared resources (Singh & Montgomery, 1987).

### **3.2.2 Capability upgrades**

Firms will typically perform an M&A to acquire new capabilities in for example technology, manufacturing, R&D, and general know-how. Acquisitions are a quick way to catch up and acquire whatever capability the firm is lacking. A firm's

resources include all assets, capabilities, processes, attributes, knowledge, and information (Barney, 1991). This includes, physical resources such as a plant and equipment; intangible assets such as brand names and innovative capabilities; and financial resources which can be used to buy other types of productive resources (Chatterjee & Birger, 1991). These resources allow a firm to implement strategies which will enable it to improve its efficiencies and effectiveness (Wang & Zajac, 2007). Barney (1991) describes a firm's resources as rare, difficult to imitate, non-substitutable, and imperfectly mobile. These resources, therefore, act to help build the firm's competitive advantage. By acquiring strategic assets and capabilities that were previously lacking, the firm may choose to exploit these resources to further strengthen its market position (Wang, 2012).

Firms will attempt to upgrade their capabilities when strategically valuable resources facilitate the development of new competitive advantages (Eschen & Bresser, 2005). Acquiring these capabilities and resources allows the firm to have further competitive advantages. That is, the ability to implement a value-creating strategy that the firm's current competitor is not adopting, nor can the competitor extract the same benefits if the strategy was to be adopted (Barney, 1991). M&A provides the opportunity to obtain entire bundles of resources and capabilities which provides the acquirer full control in one unified institution (Eschen & Bresser, 2005).

### **3.2.3 Market access and local distribution networks**

Should an organization want to gain a foothold in a particular market, it would take a considerable amount of time and energy to build a fully integrated distribution network. Thus, undertaking an acquisition can accomplish the goal of gaining access to new market and distribution networks in a substantially shorter period of time. For example, US giant Walmart acquired recognized e-commerce player jet.com in 2016 for \$3.3 billion. Walmart is a prominent player in a brick-and-mortar space; however, the acquisition of jet.com allowed Walmart to bridge the gap in the digital space, where it has struggled for years to compete with the likes of Amazon and other e-commerce giants (Mallette & Goddard, 2018).



Confident M&A buyers will aggressively look for growth opportunities in order to expand their presence (Larsson & Finkelstein, 1999). Typically more established players will acquire smaller targets such as those in the emerging market to benefit from the growing consumer base (Sun et al., 2012). Anand, Capron, & Mitchell (2005) found that acquirers can enhance their technical capabilities and gain access to institutional resources from heterogeneous foreign environments when acquiring a target with multinational geographic attributes. It was found that access to heterogeneous resource environments provided the acquirer with greater potential for capability enhancements because of the acquisition of complex and diverse capabilities (Anand, Capron, & Mitchell, 2005). Desired acquisition targets can include large key multinational players in the market, who are able to provide the acquirer with entry into various foreign markets, in addition to the myriad of untapped sources of value creation (Caves, 1989).

Table 3.1. Summary of literature on conventional cross-border M&A motivations

<b>Panel A - Economies of scale and scope</b>				
<b>Method</b>	<b>Data sample</b>	<b>Country of study</b>	<b>Author(s) Year</b>	<b>Key findings</b>
Quantitative	157 mergers between 1969-1972	US	Chatterjee (1986)	M&A create economic value through financial synergy, operational synergy and collusive synergy.
	165 acquisitions between 1975-1980	US	Singh & Montgomery (1987)	Superior economic performance in related acquisitions (vs. unrelated acquisitions) due to synergy expected from supplementary/complementary resources.
	104 acquisition between 1962 - 1979	US	Seth (1990)	Value creation and synergy found to be generated in both unrelated and related acquisition strategies.
Mixed	2 case studies in 1999, and 2000	US and Europe	Lambrecht (2004)	Mergers motivated by economies of scale are positively correlated to product market demand, causing mergers to happen in rising product markets.
<b>Panel B - Capability Upgrades</b>				
<b>Method</b>	<b>Data sample</b>	<b>Country of study</b>	<b>Author(s) Year</b>	<b>Key findings</b>
Quantitative	118 firms between 1981 – 1985	US	Chatterjee & Birger (1991)	Intangible and financial resources are the dominant factors in explaining the type of diversification a firm chooses, these assets provide a competitive advantage for entering related markets.
	584 firms, 1991 - 2000	US	Wang & Zajac (2007)	Higher levels of complimentary resources and similarities between the two firms result in partaking in acquisitions (vs. alliances), thus improving firm efficiencies.
Qualitative	Proposed model	US	Barney (1991)	Synergistic value of mergers studied illustrated the link between firm resources and sustained competitive advantages of merged firms.
	Proposed model	US	Eschen & Bresser (2005)	M&A used to close resource gaps if the acquired resources are of high strategic value and if resources possess a high distance to existing firm resources.

Panel C - Market access and local distribution networks				
Method	Data sample	Country of study	Author(s) Year	Key findings
Quantitative	1525 M&A deals between 2000 – 2008	China and India	Sun et al. (2012)	As a latecomer, ability for M&As by emerging market MNEs is due to comparative ownership advantages, thus allowing emerging firms to be more aggressive in FDI.
	248 M&A deals between 1988 – 1992	US and Europe	Anand, Capron & Mitchell (2005)	Capabilities of firms are enhanced when a firm acquires an MNE target with international/geographical scope, due to attained resource diversity.
Qualitative	Case study survey on 61 M&As deals over 30 year period	US and Europe	Larsson & Finkelstein (1999)	Integrative model proposed on synergy realization, including the importance of organizational integration when combining product and marketing operations.
	Review	US	Caves (1989)	Support for post acquisition synergistic gains from M&A through acquiring channels for input, distribution systems, and customers.

*Constructed by the author*

### **3.2.4 Limitations to the existing literature on cross-border M&A motivations**

The motivations outlined in the preceding text, despite having merit, do not serve to fully explain the phenomenon of why Chinese SOEs undertake cross-border M&As. When setting out to establish the motivations for cross-border M&As, the prevailing literature uses MNEs from developed economies, such as the US and EU. This in turn, questions the relevance and applicability of traditional motivations in the context of emerging economies. When considering this stream of research, i.e., the literature focused on developed economies, the assumption that firms pursue M&A primarily for the sake of internationalization and expansion is implied. This is because, such companies can be assumed to already both well-established players in addition to holding significant market share in their respective countries (Boter & Holmquist, 1996). Therefore, from the above, the rationale for internationalization by way of cross-border M&A stems from the firm whereby the firm has the capabilities, assets, and resources needed to seek overseas markets (Grant, 1991). However, in many cases, Chinese SOEs are not in possession of the advanced firm level assets such as innovative technologies or competitive advantages that are typically observed in Western firms that undertake cross-border M&As (Yasuhiro et al., 2008).

It has been pointed out that firms from emerging economies that conduct cross-border M&As often lack fundamental international experience (Peng & Wang, 2000). Particularly in the case of China, SOEs are encouraged by the state to perform an overseas M&A despite lacking crucial international experience (Erdener & Shapiro, 2005). Nonetheless, Chinese firms have gone against what is typically observed in the study of cross-border M&As conducted by multinational enterprises (MNEs) in emerging economies. That is, often a firm from an emerging economy will not aggressively pursue a large, well-established target from a developed economy (Brouthers, 2002). This is because, in theory, companies in emerging economies will often choose to begin with low risk and low commitment options. For example licensing as an initial means to internationalization rather than high commitment

choices i.e., M&A (Ramamurti, 2012). In the case of China's SOEs, they have acquired many well-established firms from developed economies. Such examples include, ChemChina's acquisition of Switzerland's Syngenta (agribusiness) in 2017 for \$43 billion; China National Cereals Oils and Foodstuffs Corporation's (COFCO) acquisition of the Netherlands' Nidera (grains) in 2015 for \$2.25 billion; and China National Offshore Oil Corporation's (CNOOC) acquisition of Canada's Nexen (oil and gas) in 2013 for \$15.1 billion.

Critically, the above explanations on the rationale for cross-border M&As are based on conventional cross-border M&A theories, with the rationale for cross-border M&A being established by firm-level motivations. By focusing on the motivations at the firm-level, the assumption is made that, the organizations have full decision-making power to actively pursue cross-border M&As (Moeller & Schlingemann, 2005). In the case of Chinese SOEs, the firm is directed in a top-down fashion by the central government through the relevant formal institutions. That is, SOEs have to follow the formal policies, guidelines, and targets that are directed by the state (Robins, 2013). Therefore, SOEs do not have full decision-making power, and moreover, do not have the autonomy to execute cross-border M&As. In China, the motivations for cross-border M&As undertaken by SOEs are heavily influenced at a national level (Deng, 2009). These motivations are guided by state targets that are addressed in the central government's Five-Year Plans (FYPs). These targets are followed closely by the SOEs, underscoring the close relationship between the state and SOEs (Barbieri et al., 2010). Therefore, the motivations for cross-border M&As undertaken by SOEs cannot be established if only the typical firm level motivations are assessed. Thus, in order to fully understand these motivations, the intricacies of the relationship between the state and SOEs need to be studied.

### **3.3 A critical review of the literature on cross-border M&A motivations in the context of China**

Cross-border M&As undertaken by Chinese firms as a result of influences from Chinese institutions and the domestic political and economic climate is an emerging field of study. As per Table 3.2 the body of literature on cross-border M&A by

Chinese enterprises have been growing in recent years. Prior studies that have focused on Chinese cross-border M&As while taking political and economic factors into consideration, have taken a predominately quantitative approach. These studies have investigated the role of the state in completed deal transactions, and specifically, the state's influence in motivating SOEs to pursue cross-border M&As. Firstly, such studies have shown that as a result of their strong links to government, SOEs are able to secure finance on favourable terms; i.e., low-interest rates and flexible repayment conditions etc., therefore, providing a clear incentive for the SOE to pursue the undertaking of an M&A (Buckley et al., 2007; Du & Boateng, 2015; Gu & Reed, 2016). Other critical state benefits such as tax rebates, access to favourable foreign exchange rates, and administrative support arguing that these factors also play a vital role in incentivizing SOEs to undertake cross-border M&As (Cui & Jiang, 2010; Luo & Han, 2010). It is argued that the overseas expansion strategies of Chinese firms are greatly incentivised by their institution, to the point that SOEs often rely on the ties with the state to obtain monopolistic advantages overseas (Rugman & Li, 2007). Resultantly, state-sponsored and supported acquisitions are now becoming the “normal” mode of entry by Chinese enterprises looking to pursue overseas expansion (Zhang, Zhou, & Ebbers, 2011). However, Cui & Jiang (2012) highlighted the influence of state ownership and institutional pressures on FDI entry ownership decisions using logistic regression analysis on 588 Chinese firms. It was argued that high dependency on the institution could result in both a resource advantage as well as a political liability when choosing a foreign entry mode (Cui & Jiang, 2012; Anderson & Sutherland, 2015). That is, all M&A projects are subjected to government approval, M&A projects that create greater concerns for capital flight and foreign exchange demands do require more vetting by state agencies (Luo, Xue, & Han, 2010; Sauvart & Chen, 2014; Jones & Zou, 2017). Specifically, the institutional pressures can also act to constrain the outwards M&A choices and favour JV modes as they are co-funded (Cui & Jiang, 2012).

Secondly, quantitative studies have also compared the nature of cross-border M&A investments made by both Chinese SOEs and private enterprises. Such comparisons took into the account the effects of national policy incentives, for instance the ‘Go global’ strategy. The resulting research found that Chinese SOEs have the ability to conduct higher-value deals and strategically impactful deals, particularly in resource-

scarce industries – such as natural resources (Ramasamy, Yeung, & Laforet, 2012; Reddy, Xie, & Huang, 2016). Supporting this, Karolyi & Liao (2010) investigated the difference in government-controlled cross-border M&As and corporate-led acquisitions from 1990 – 2008 using a logit regression model at an aggregate country level and deal-specific level. Of the 5317 deals investigated, it was found that government-led acquisitions were more likely to pursue targets that are both larger in scale (e.g., M&As with 100% control) and in value (such as those in natural resources), than acquisitions led by non-state connected corporations. Similarly, quantitative studies involving internationalization strategies (Amighini et al., 2013; Quer, Claver & Rienda, 2011; Ramasamy et al., 2012), distinguished through the use of disaggregated data by country and sector, that SOEs tend follow strategies that assist on the strategic needs of their home country (i.e. acquiring in natural resource sectors), and are indifferent to the political economic conditions of the target country (Li & Liang, 2012; Amighini et al., 2013).

Finally, quantitative studies using an institutional approach have investigated the post-acquisition performance of cross-border M&As made by Chinese SOEs (Zhou et al., 2015; Chen et al., 2009; Calomiris et al., 2010). It was found that government-led deals (where the acquirer's parent company is identified as a government entity) are generally associated with poorer financial performance (Chen et al., 2009; Karolyi & Liao, 2010; Sun & Tong, 2003). It is argued that this is the result of government intervention slowing down the SOEs decision-making process, which can be detrimental given an increasingly competitive global environment. Contrastingly, Du & Boateng (2015) examined the effects of state ownership on value creating cross-border M&As. Using data obtained from the Chinese stock market, the cumulative abnormal return (CAR) was examined on a sample of 340 firms, the results concluded that cross-border M&As conducted by SOEs were able to increase shareholder value over the long-run, compared to, for example, non-state enterprises due to the preferential state treatment. Similarly supported by Zhou et al. (2015), results from multivariate regression and abnormal returns measures on 825 deals, found that SOE acquisitions outperform private acquire in terms on the long-run stock and operating performance. Moreover, Wu & Xie (2010); Zhou, Guo, Hua, & Doukas (2015); Boateng, Bi, Brahma (2017) used accountancy based performance metric - the return on assets (ROA) as a measure of post-acquisition performance for

cross-border M&As undertaken by publicly listed Chinese companies. It was found that state ownership does have a positive impact on the acquiring firm, as a result of the SOEs political connections and the associated benefits. Such benefits include, financial support, the ability to acquire target firms under strict governmental control, and the ability to dominate competition through state intervention. Thus, these studies concluded that the gains from being state affiliated outweigh the inefficiencies of state ownership in the long-run.

Qualitative studies have also used the institutional and political perspectives to understand the principle reasons for Chinese enterprises to pursue cross-border M&As. This includes Cui & Jiang (2010), Peng (2012), Rui & Yip (2008), and Child & Rodrigues (2005) who used multiple case study designs to highlight the role of the Chinese government in encouraging Chinese firms to adopt a catch-up strategy and to build corporate strength. Rui & Yip (2008) and Zheng, Wei, Zhang, & Yang (2016) used a series of semi-structured interviews to illustrate that Chinese firms (both private and state-owned) are motivated to conduct cross-border M&As so as to acquire strategic assets. For example, internationally recognized brands and advanced technologies. In doing so, it is argued that Chinese firms are able to correct competitive disadvantages, such as weak brand recognition and skepticism of Chinese technological competence (Deng, 2009; Zheng et al., 2016). Through multiple case studies, Deng (2007, 2009) and Knoerich (2010) also illustrated that Chinese companies do acquire strategic assets to address their weaknesses - that is, acquisitions allow a fast route for the Chinese firms to acquire access to technology and international brands. Knoerich (2010)'s study on the acquisition of German manufacturing companies (in the machinery and equipment sector) by Chinese firms argued that the rationale behind German acquisitions was linked to Chinese companies seeking to make up for technical shortcomings thus making German market segments inaccessible. Subsequently, the M&A of German firms not only facilitated entry into the German market, but also, allowed Chinese firms to boost their reputations and customer base (Knoerich, 2010).

Further qualitative studies such as Child & Rodrigues (2005) and Deng (2009) used multiple case studies including those of TCL, BOE, and Lenovo, to argue that strategic asset acquisitions are a logical outcome when the Chinese institutional



environment is considered. That is, the Chinese government has the authority to influence the clear direction of the outbound M&As. Yang et al., (2009) and Cui & Jiang (2012) argue that this is directly because of strong state support. Using an institutional based view and a multiple case study design, Cui & Jiang (2010) confirmed that Chinese firms comply with the rules set by the Chinese institution which act to both incentivized and restrict the firm's OFDI decision. Peng (2012) further supported this point and stated that despite not having superior resources; Chinese firms were still able to undertake outwards foreign direct investment (OFDI) due to the incentives and support afforded by the government through state policy. In addition, Peng (2012) also pointed out this state support reaffirmed that acquisitions were the preferred mode of OFDI by Chinese multinational enterprises (MNEs) due to the urgency of fast market entry. Nolan (2001) and Deng (2010) both highlighted that Chinese SOEs are considered to be operating at a lower efficiency than Western firms, have relatively lower international competitiveness, and lack the management understanding to access overseas markets. Notwithstanding, SOEs still do pursue acquisitions overseas and are successful in securing resources in developed economies.

Though these qualitative studies have been insightful in terms of providing evidence to support the point that the Chinese state can indeed motivate cross-border M&A. Nonetheless, much of the qualitative literature is based on narrow case studies, primarily focusing on the manufacturing and technology industries. This makes the task of drawing generalizations to SOEs in other industries difficult. For example, as per Chapter 2 of this thesis, the cross-border acquisitions in natural resources observed during 2006-2010 (the peak of China's economic growth) were of substantial value (totalling 88.2% of the total value of cross-border M&A during this period). It is indicative that these deals were conducted out of a necessity to drive Chinese economic growth, and rather gaining a more significant foothold and better competitiveness (i.e., as per the reasons highlighted in the preceding text).

There is limited recent literature that takes a qualitative approach to assess the institutional effects on cross-border M&A exclusively by Chinese SOEs. That said, examples of some such studies include that of Gao, Liu, & Eleni (2015) who used semi-structured interviews to support their argument that the Chinese institution can

both support and constrain SOEs M&As strategy. It was also found that the state could financially support SOEs thereby mitigating the disadvantage of Chinese SOEs being latecomers in developed economies. However, it was also found that the state can hinder M&A projects undertaken by SOEs due to unavoidable bureaucratic process and, possible interference (Gao, Liu, & Eleni, 2015). Though the study by Gao et al., (2015) does have its merits, the study has a focus on the role of the host country's institution during the post-internationalization process, as opposed to the initial motivation and the rationale of the home country's institution for the outwards foreign market expansion.

SOEs were the first enterprises explicitly chosen by the state to go abroad. Their close ties to the central government mean that SOEs are responsible for carrying out cross-border M&As in-line with government regulations, policies, and national strategies. Given this close relationship, it is pertinent to address this research exclusively from the perspective of SOEs. However, the close relationship and interconnectedness of SOEs and the Chinese government make it a challenging process to obtain information regarding SOEs. This is further evident when addressing the topic of cross-border M&As, as SOEs in China are notoriously selective on which information they choose to disclose to 'outsiders.' Resultantly, there is a lack of qualitative based literature on cross-border M&A purely from the perspective of an SOE; and subsequently a lack of in-depth understanding from an institutional perspective.

Table 3.2. Summary of cross-border M&A motivations in the context China (1/3)

<b>Panel A - Political economy and institutional perspective</b>				
<b>Method</b>	<b>Data sample</b>	<b>Country of study</b>	<b>Author(s) Year</b>	<b>Key findings</b>
Quantitative	49 observations between 1984 – 1991	China	Buckley et al. (2007)	OFDI due to through China's distinctive home institution, i.e. policy liberalization leading to strong natural resource seeking FDI.
	6000 M&A deals between 1997 – 2014	China	Gu & Reed (2016)	M&A motivated by financing i.e. favourable loan terms. SOEs are more likely to prefer cash financing than non-SOEs. Thus M&As are highly driven by institutional factors.
	132 FDI entries during 2000 – 2006	China	Cui & Jiang (2012)	State ownership and institutional pressures can highly influence on FDI decision. E.g. SOEs prefer JVs and M&As as mode of entry.
	346 firms between 2003 – 2005, covering 95 countries	China	Li & Liang (2012)	OFDI flows to countries with better Chinese political relations, indicating international politics does matter in terms of the investment distribution. SOEs follow strategies that assist with strategic needs of their home country.
	1324 announced M&A deals between 1982 – 2009	China.	Zhang, Zhou & Ebbers (2011)	Institutions can affect the failure/success of M&A deal. At country level, deals are successful if the host country has good institutions. However institutional constraints are also faced at industry level e.g. in energy.
	513 deals (US targets) between 2003 – 2011	China	Anderson & Sutherland (2015)	Emerging Chinese MNEs acquire in developed markets for strategic asset seeking purposes, wherein the deals are significantly driven by state influence.
	514 M&A deals between 2005 – 2011	China	Liu et al. (2017)	Political connections destroy M&A value (post- M&A performance) in SOEs, while it creates value in non-SOEs.
	825 deals between 1994 – 2008	China	Zhou et al. (2015)	SOEs outperform non-SOEs in terms of long-run stock performance and operating performance post M&A. The gains from state connections outweigh the inefficiencies associated with state connections.
Qualitative	Case study	China	Jones & Zou (2017)	New framework for the role of the state in SOE international expansion strategy - i.e. state plays a regulatory role while SOE have considerable decision-making power.

Table 3.2 continued (2/3)

<b>Panel B - Quantitative China specific cross-border M&amp;A studies</b>					
<b>Method</b>	<b>Theoretical perspective</b>	<b>Data sample</b>	<b>Country of study</b>	<b>Author(s) Year</b>	<b>Key findings</b>
Quantitative	Internationalization theory	1350 deals across between 2003 – 2008 in 59 countries	China	Ramasamy, Yeung, & Laforet (2012)	Difference in location of OFDI is based on ownership i.e. private firms are more market seekers. SOEs driven by acquiring strategic resources and want know-how. SOEs able to conduct high-value deals.
	Resource based view	137 deals between 1995 – 2014	China	Reddy, Xie, & Huang (2016)	State influence result in Chinese SOEs completing more high value deals and invest in resource scarce industries in both developed and developing countries.
	Institutional perspective	5317 deals (failed and completed), 1990 – 2008	China	Karolyi & Liao (2010)	State-led deals pursue larger targets with great growth opportunities, in all countries with any level of economic development. However state prefers geographically closer countries to China.
	Internationalization theory	368 firms in 27 EU countries, during 2003 – 2011	China	Amighini et al. (2013)	Weak evidence that M&A transfer value resources/intangible assets to Chinese. OFDI location not necessarily based on political influence/conditions of the host country.
	Behavioral perspective	165 M&A deals by 91 companies, during 2000 – 2006	China	Wu & Xie (2010)	The pre-acquisition performance of Chinese firms and the degree of state shares does have a positive impact on the post M&A performance due to state associated benefits.
	Corporate governance	219 deals between 2000 - 2013	China.	Zhang & Mauck (2018)	Returns from politically connected bidders vs. non-connected differ during the announced period. However in the long-term (post merger), politically connect firms have lower returns, due to the general inefficiencies associated with the state.
	Corporate governance	1782 firms between 2007 - 2016	China	Schweizer, Walker, & Zhang (2017)	Political connected managers are more likely to complete cross-border M&A deal but at the cost of negative returns and lower performance.
	Institutional perspective	468 cross-border M&As deals between 1998 – 2011	China	Du & Boateng (2015)	Investigated the effect of state ownership on firm value creation (post-M&A), i.e. state owned firms generate positive abnormal returns.
	Corporate governance	340 M&A deals between 2004 – 2011	China	Boateng & Bi, Brahama (2017)	The return on asset (ROA) on non-SOE driven deals is better than SOEs. State party relations found to have negative impact on post M&A performance.

Table 3.2 continued (3/3)

<b>Panel C - Qualitative China specific cross-border M&amp;A studies</b>					
<b>Method</b>	<b>Theoretical perspective</b>	<b>Data sample</b>	<b>Country of study</b>	<b>Author(s) Year</b>	<b>Key findings</b>
To         Qualitative	Institutional perspective and RBV	10 case studies	China	Cui & Jiang (2010)	Overseas Chinese firm adjust their entry strategies to attain institutional legitimacy of the host country, while also complying with rules set by Chinese state. Thus influencing FDI ownership decision.
	Institutional perspective	Case studies	China	Peng (2012)	The global strategy of Chinese MNE's are characterized by the home country institutional forces; going abroad despite inferior technological/managerial resources; adoption of M&A as mode of entry.
	Institutional perspective	Interviews and 3 case studies	China.	Rui & Yip (2008)	Chinese firms use M&A to acquire to acquire strategic capabilities to offset their competitive disadvantages, while also leveraging on their unique institutional advantages.
	Internationalization theory	Case studies	China	Child & Rodrigues (2005)	Chinese firms use M&A to internationalize with help from institution to overcome latecomer perspective/catch up strategies.
	Institutional perspective	Case studies	China	Deng (2009)	Chinese M&A driven by need to acquire strategic assets and resources as a result of China's unique institutional environment.
	Market seeking view	Case study and interview data	China	Knoerich (2010)	Firms from fully industrialized countries agreed to be acquired by emerging economies due to favourable expansion opportunities which were previously inaccessible to them.
	Resource based view	Multiple case study design and interviews	China.	Zheng et al. (2016)	M&A to acquire strategic assets to overcome China latecomer disadvantages and competitive weaknesses.
	Institution, industry and RBV	2 case studies	China	Yang et al. (2009)	How Chinese firms internationalize are inherently shaped by the domestic institution as well as the international frameworks that govern FDI.
	Institutional perspective	Case studies and interviews	China	Gao, Liu, Eleni (2015)	Home country institutions and bilateral political relations affect the post M&A expansion strategy of SOEs through both supporting internationalization plans and constraining the entry mode.

*Constructed by the author*

### **3.4 Limitations of existing research on cross-border M&As by Chinese SOEs**

There are three clear limitations that exist in the prevailing literature on cross-border M&As by Chinese SOEs. Firstly, much of the existing literature is limited in the extent of illustrating the effects of the institution in the context of cross-border M&A. For example, Child & Rodrigues (2005); Buckley et al., (2007); Luo, Xue, & Han (2010); and Cui & Jiang (2010, 2012) highlighted the influences of the government in stimulating Chinese OFDI in the general sense, with no exclusivity to M&A. In these studies, it was argued that institutional influence was able to offset any competitive disadvantages, for example, a lack of organizational and managerial skills (Buckley et al., 2007; Du & Boateng, 2015; Gu & Reed, 2016). Cross-border M&As are different to other OFDI modes as M&As in the China context is used as a competitive advantage to aggressively access and source strategic assets in a relatively short period of time (Deng, 2007). Evidently, China has since become a major player in the world's cross-border M&A market. Starting from a base of less than USD 1.4 billion in 1990, the net value of cross-border M&A undertaken by Chinese enterprises rose to over USD \$99 billion and USD \$130 billion in 2016 and 2017, respectively (UNCTAD, 2018). This has made China the largest purchaser of global M&A acquisition targets since 2016. Authors have also asserted that, China possesses many special conditions that are rarely encountered in other emerging economies or industrialized economies. Namely, the unrivalled state support, fiscal incentives, favourable bank loans, and assistance through government agencies while also providing protection on overseas investments; therefore, SOEs were able to transcend a number of perceived shortcomings (Yasuhiro et al., 2008; Peng, 2012). Indeed through the series of formulated policies, it has provided institutional support to permit Chinese enterprises to rapidly internationalize and aggressively expand internationally (Deng, 2009). Cui & Jiang (2012) argue that state ownership can strengthen the institutional influence on the SOE's strategic OFDI choices, as the SOEs are highly dependent on the state's critical resource inputs. Nevertheless, findings such as that of Luo, Xue, & Han (2010) and Cui & Jiang (2012) were based on OFDI in a general sense, with no mention of M&A as a specific mode of OFDI. Similarly, Child & Rodrigues (2005) and Buckley et al., (2007) discussed how the Chinese governmental policy implications and measures could encourage OFDI,

however again, the discussion was at a broad OFDI level. In the context of China, it is important to distinguish M&A as a mode of OFDI. In 2015 – 2018, China became the second largest player globally in terms of the total number of successfully completed cross-border M&A deals (Koreen, 2017; UNCTAD, 2017). Thus highlighting the growing importance of China's share in global cross-border M&A market.

The second limitation identified in the existing Chinese cross-border M&A literature, is related to data samples not being exclusively SOEs focused. Specifically, much of the literature includes studies with findings based on data pertaining to listed Chinese companies. In this case, this is data that relates to both state and non-state enterprises (Zhou et al., 2012; Du & Boateng, 2015; Schweizer, Walker, & Zhang, 2017; Zhang & Mauck, 2018). By using a mixed dataset and thus isolating the effects of SOEs through a dummy variable, such studies often do not fully capture the complete distinctive complexity of SOEs. This can be due misinterpretations of data, limits on quantifying tacit elements of SOEs, and thus oversimplifying the relationship between SOEs and the institution. Therefore, in doing so, studies are not completely differentiating SOEs from conventional organizations. This is problematic as it assumes SOEs have the autonomy to dictate the direction of their own M&A activity, which they do not entirely have. As a result, this dilutes the quality of data analysis on cross-border motivation to the organizational level only. Resultantly, this means studies also overlook the significance of the state on SOE behaviour. SOEs are quasi-agents of the state, and it is argued that the state sets the mandates required for all overseas investments. This is done through state plans, targets, and even, the specific appointment of SOE managers. This underscores both the influence and, the intertwined nature of the state and SOEs. This can be observed at three levels as follows, national, organizational, and at an individual level. Exactly because of the multi-level involvement that the state has in the M&A process, any comprehensive analysis of cross-border M&As completed by Chinese SOEs, should also be undertaken at each of these levels. Current qualitative literature such as that of Deng (2009), has studied the institutional effects at the national and organizational levels, highlighting the role of the government and its influence on corporate values and norms. However, Deng (2009)'s study did not include the institutional effects at an individual level. Quantitative studies of Boateng et al.,

(2017) and Liu et al., (2017) include the impact of firm ownership and political connectedness on M&As at the national and individual levels, however the findings of study was relevant to M&A performance as opposed to the direct motivations of cross-border M&As. As the central state is also responsible for the specific placement of SOE managers, it therefore suggests that the state can also influence cross-border M&As at the individual level (Robins, 2013; Leutert, 2018). For this reason, it is essential to review the relevant data at an individual level – in addition to the national and organizational level. In approaching the research in this way, the underlying mechanisms and institutional effects that underpin cross-border M&As undertaken by Chinese SOEs, can be comprehensively understood.

Finally, the third limitation found in the prevailing literature is a lack of emphasis on the effects that the Chinese identity and, other tacit factors – such as the focus on national rejuvenation and China's strong sense of national pride – have on motivating SOEs to pursue cross-border M&As. Existing research is yet to explore and determine the significance that these informal institutional effects have in motivating SOEs to undertake cross-border M&As. However, there have been China-focused studies that have identified the importance of pride in the valuation process of cross-border M&As. This includes Hope, Thomas, & Vyas (2011) and Guo et al., (2016) who empirically found that firms from developing countries, including China, tended to bid higher on M&A deals than those from developed countries. Guo et al., (2016) particularly stressed the role of the state; specifically noting financial privileges, social and political interest, and inefficient management for these premium acquisitions. Studies have also concluded that politically driven deals expressing national sentiments typically resulted in higher premiums; thus indicating a significant degree of “national pride” in M&A deals (Hope, Thomas, & Vyas, 2011; Asplund & Kjellesvik, 2012; Peng, 2012). Additional studies on the effects of Chinese culture on the M&A process include case studies by Chatzkel & Ng (2013) and Liu & Woywode (2013). Chatzkel & Ng (2013) expressed that the traditional Chinese mindset could clash with non-Chinese corporate cultures, creating obstacles during M&A negotiations and other key processes. Supported by Liu & Woywode (2013), it was found that national cultural dimensions are significant in influencing the intention/mindsets of individuals in the M&A process by Chinese MNEs in Germany. The above studies have been useful, as they have highlighted that



intangible qualities such as pride, are significant and merit consideration when assessing the M&A process. However, these studies have explored this phenomenon only when analyzing the negotiation/bidding process of an M&A (Hope, Thomas, & Vyas, 2011; Asplund & Kjellesvik, 2012; Guo et al., 2016). That is to say, the aforementioned studies have, for instance, underscored how pride could result in inflated bids or cultural clashes; they have not however, fully uncovered the underlying motivations behind cross-border M&As. Moreover, these studies have denoted pride as 'ego' or 'loss of face,' indicating less regard for the effect that China-specific significance tacit qualities can have on the cross-border M&A process. Some such qualities include, the historical significance of passed Chinese achievements and how this drives the desire to achieve national rejuvenation. It is therefore argued that the existing literature overlooks how intrinsic and intangible Chinese specific properties – i.e., China's rejuvenation and national pride – act as a fundamental motivator for SOEs to pursue cross-border M&As. Zhao (2005), Gries, et al. (2011), and Zhao & Han (2016) underscored the significance of Chinese pride on the Chinese culture. These scholars outlined the importance of China's 'lost century' and, how this period continues to both haunt and motivate the Chinese. Despite the three above studies not being M&A focused, they still served to shed light on the significant roles that pride and national identity play in China. As to be explained in section 3.8.1, China's past historical achievements form a critical component of the Chinese psyche and, more broadly, link into deep-rooted cultural values. These informal values are significant, as they not only influence the outlook of the state but also shape the perspective of both SOEs, and respective key personnel. Therefore, it is argued that should these values not be included in the analysis of cross-border M&As; a fully comprehensive breakdown of the motivations for cross-border M&As by Chinese SOEs cannot be realized.

## 3.5 The concept of the institution

### 3.5.1 Origins of the institutions

The concept of the institution originates from the realm of sociology. It is considered by Scott (1987) that the institution is a social structure by which processes including rules, norms, routines obtain a universal standard that is considered socially acceptable behaviour. Sociology has studied the origin of these processes. Specifically, how they diffused into behavioural guidelines, leading to eventual adoption, and lastly how they have evolved (Sleznick, 1996; Scott, 2004). Barley & Tolbert (1997) argued that institutions are created by actors through a history of negotiations that eventually generalizes expectations and interpretation of behaviour. Schutz (1962) and Berger & Luckmann (1967) determined how a shared sense of reality influences knowledge that guides everyday life. It was proposed that human activity is subjected to habitualization and if the actions are repeated frequently, it soon becomes a pattern. Individuals will habitualize their activity in accordance with the experience of a world of social institutions. Zucker (1977) further explained that institutions themselves are a product of social control. It was argued that social order originates from the fundamentals of a shared social reality that is constructed through social interactions. This was supported by Scott (1987) who said social order exists only as a product of human activity, i.e., social order occurs when individuals take action, interpret that action, and share their interpretation with others. The interpretations, in turn, are attempts to classify the behaviour into categories for which individuals then repeat the actions over periods of time. Finally, individuals assign meaning to these actions, and thus these actions become "*institutionalized*" (Scott, 1987).

Pioneers of institutional research include Meyer & Rowan (1977) who studied how formal institutional rules affect the behaviour of organizations. The study concluded that organizations are influenced by factors in the institutional environment such as values and myths, but above all, they stressed the importance of understanding the "*taken for granted*" rules which organizations incorporate to gain resources and enhance their survival prospects. The work by Parsons (1956) on the institutional

environment demonstrated that organizations could interact with the institution and thus society through universal rules, contracts and authority. From this, scholars began to argue that because institutions are socially constructed templates for actions that are maintained through ongoing actions and interactions; the patterns of actions that emerge are repeated and can gradually acquire the status of facts that are "*taken for granted*." As these "*taken for granted* rules" are embedded into the institution, they will ultimately shape future interactions and negotiations (Barley & Tolbert, 1997; Zucker, 1977). In line with the application of the institution, DiMaggio & Powell (1983) investigated why organizations are so similar. It was concluded that it is the rules of the state and society that creates pressures on organizations. A paradox arises in that when organizations change, they will conform to isomorphic processes that ultimately make organizations becoming increasingly similar, including behaving and using the same processes.

### **3.5.2 Extended application to management studies**

A country's institutions are comprised of set rules, social norms, and cognitive mindsets that determine the socially acceptable patterns of behaviour (Scott, 2004). Institutions are constraints created by humans to create structure during economic and social interactions, therefore creating order and reducing uncertainty (North, 1991). Through these characteristics, the country's institution can define the "*rules of the game*" (Muralidharan & Pathak, 2017). It is the institutional structure that governs the logic of a country's economic actions and the decisions used in everyday life (Muralidharan & Pathak, 2017). Institutions are defined by Pejovich (1999:165) as "*the legal, administrative, and customary arrangements for repeated human interactions*." It was understood by Azari & Smith (2012) that institutions are a kind of equilibrium with the institutional structure itself formed of rules, regulations, culture, and traditions operating in harmony while being accepted by society. Barley & Tolbert (1997:6) defines institutions as "*shared rules that identify categories of social actors and their appropriate activities*."

One of the primary uses of the institutional theory is the application of legitimacy in organizational behaviour and human resource management. Legitimacy has been

defined by Suchman (1995:574) as “*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, and beliefs.*” What is seen in some cases, is that high levels of legitimacy can itself be achieved within local communities even if the actions and behaviour are technically operating outside of what is considered legal (Bruton, Ireland, & Ketchen, 2012). This observation has led scholars to research how legitimacy under these conditions is created and maintained. In the study by Bruton et al., (2012) it was shown that through mimicking the standard behaviour that is observed in society, legitimacy could be created. For instance, private taxi firms use cars which are the painted the same colour as official taxis. This creates the illusion that they appear legitimate. Other studies by Khavul, Bruton, & Wood (2009) showed how small businesses in Africa could obtain legitimacy despite having no official licenses, employees being unregistered, and paying no taxes. In this case, it was shown that legitimacy was achieved due to unreliable formal institutions which forced entrepreneurs to rely on the use of family and social ties (Khavul et al., 2009).

North (1994) stated that, as institutions are rules of the game; organizations (a group of individuals bounded by a common objective) are therefore actors whom can innovate and introduce new institutional rules when they believe that they can improve their competitive position. Wu et al., (2016) argues that when a firm expands into a foreign country with a stable institution, this helps to boost innovation and performance of a firm. This is because a stable political environment reduces uncertainty, as institutions are essentially a historical accreditation of the legitimacy of practices (Barley & Tolbert, 1997). The stable institution, therefore, encourages firms and individuals to take new innovative initiatives (Wu et al., 2016). It is argued that individuals who are in the position to modify the rule of the game are key to changing and evolving the institution over time (North, 1991). This is also supported by Greenwood & Suddaby (2006) who illustrated that individual entrepreneurship could encourage institutional change in emerging economies. Under these circumstances, individuals treat the informal economy as a bridge until the formal economy advances. In this case, the first step of institutional change is encouraged in the informal economy and then will transition into the formal economy (Thai & Turkina, 2014).

### 3.6 Types of institutions

Meyer & Rowan (1977) considered institutions as an influential factor in the observed actions seen by organizations. It was believed that the institution is comprised of the demands of centralized authorities as well as individual personal beliefs, practices, and norms. North (1991) supported this view, arguing that the institutions are formed of formal rules (constitutions, laws and property rights), and informal constraints (customs, traditions, and code of conduct). North (1991) further established an institutional typology that divides the institution into formal and informal dimensions. It is argued that the institution is a complex system in which the informal personal beliefs and the formal systems are interdependent and overlapping (Barley & Tolbert, 1997; Meyer & Hammerschmid, 2006; Azari & Smith, 2012). The study of institution states that the existing institutional environment is created by repeated human interactions. The repeated interactions, in turn, establish the formal and informal rules that are adopted by society (Azari & Smith, 2012). Further to this, Helmke & Levitsky (2004) defines informal institutions as a set of socially shared rules that are unwritten and have been created to be communicated and enforced outside of the official formal channels. In other words, the institution is made up of formal and informal practices, routines, norms and conventions that are embedded into the structure of society (Chacar & Vissa, 2005; Chacar et al., 2017).

#### 3.6.1 Formal institution

The formal institution is considered the institutional framework that embodies the written, legal and regulatory rules (North, 1991). The formal institution thus determines *the rules of the game* and *how the game is played*. Pejovich (1999) defines the formal institution as formal rules, which includes constitutions, common law, and governmental regulation. The actions of the formal institution can govern the political, economic, and the enforcement system. Therefore, the formal institutions will ultimately determine for example the governing structure, the legal rights of individuals, property rights, and the jurisdiction – i.e., what is established by the law. Not only does the formal institution embody the rules and regulations but

it can also incorporate the values, norms, and beliefs of some groups of society. However, not all individuals share the same values and beliefs due to differing perspectives and personal experiences. Therefore these individuals will be in conflict with the formal institution's view (laws and regulation) on what is deemed legitimate (Azari & Smith, 2012).

The formal institutions define the parameters for conducting business activities within the realms of society (Barley & Tolbert, 1997; Webb et al., 2009). The formal institution can be more restrictive than what is considered socially acceptable by the informal institution (Pejovich, 1999). However, the boundaries of the formal and informal institution are dynamic and will shift with time in response to external environmental influences. In which case the formal institution can change, i.e., the boundaries and parameters of what is deemed formally acceptable can shift. This means the realms of what is considered legal and legitimate can vary as well. When the formal institutional boundaries at the national level increase; this subsequently creates new opportunities within parts of the informal institution to transition into the formal institution thus allowing informal norms to gain formal legitimacy. Changes in the institutional boundaries as proposed by Webb et al., (2009) include adjustments due to individuals successfully bringing about institutional change, therefore transforming the formal boundaries to be more aligned with the norms, values, and beliefs of the informal institution. This can be achieved by entrepreneurs who exploit legal and legitimate opportunities within the formal economy (Khavul et al., 2009). In doing so, entrepreneurs will often conform to the established formal institutional rules whilst simultaneously creating new informal rules for adoption by society. Opportunities for exploitation will arise for example, when there are changes in the formal institution such as shifts in policies; or when there is a conflict between societal values and the direction of the formal institution. These scenarios can often create a grey area between what is considered legal and what is deemed legitimate (Lee & Hung, 2014).

### **3.6.2 Informal institution**

The informal environment is implicit and can affect the rules of the game (Pejovich, 1999). Barley & Tolbert (1997) highlights that cultural influences are significant to

formal decision making; and values, norms, rules and beliefs can also provide a blueprint to how the world should be. Informal institutions are considered unwritten norms, cultural and cognitive rules. Pejovich (1999) classifies informal rules as traditions, customs, morals, values, religious beliefs, and all other norms that have been passed down through each generation. It is these intrinsic qualities, i.e., an implicit set of values with a legacy that can be a powerful tool in altering the way individuals can perceive the environment and greater society. Supported by Chacar et al. (2017), informal rules are considered as socially constructed, routine-reproduced programs that identify the most appropriate manner to pursue social purposes. Sauerwald & Peng (2013) agreed that informal rules are unwritten socially shared rules that are created and communicated outside of what is enforced by the central state. In capturing the use of the informal institution, it has meant a more distinctive framework has emerged which also captures the use of intangible approaches.

The effects of the informal institution are increasingly becoming of great interest to a new generation of literature with a focus on economic stability (Pejovich, 1999; Williamson, 2000). Scott (1987) pointed out that the institutionalization of informal practices will depend in part, on how long an institution has been in place, and on how deeply it is accepted by members of society. The informal institution due to its emphasis on values on what is considered proper, appropriate behaviour; and norms on how things are done can be used to establish the behaviour of society and to encourage the public to conform and adhere to rules (Muralidharan & Pathak, 2017). When activities are performed outside of the formal institutional boundaries, this leads to the rise of an informal economy (Webb et al., 2013). From the perspective of the formal institution, informal activities are therefore considered illegal. However, if a large portion of society supports these informal activities, informal activities can be regarded as legitimate. Thus the realms of the informal institution are based on the differences between what is formally and informally perceived as legitimate (Webb et al., 2009). In some cases, the informal institution can gain momentum and attention when the formal institution is weak or absent. The beliefs in the informal institution are particularly prominent in emerging economies wherein ownership, and legal protection rights are limited. Therefore there are imperfections in enforcing laws and regulations set by the formal institution. Through the informal

institution entire networks can be formed and with enough adoption by society - legitimacy can be achieved. Lee & Hung (2014) pointed out that though the activities of the informal institution are "illegal" they can be legitimate when informal practices, methods, and products are accepted by social groups (Lee & Hung, 2014). Supported by Webb et al. (2009), it was considered that although some individuals are technically using illegal means for economic gain, the gaps and differences between both institutions allows for legitimate opportunities.

### **3.7 Relationship between the formal & informal institution**

When addressing the formal and informal institution, it is the dynamic interaction between both institutions that form the rules that are used by society. Barley & Tolbert (1997) state that actions are largely organized by institutions, That is, institutions are created, maintained and changed through action. North (1991) concluded that institutions evolve incrementally, wherein institutional change reflect the connection between the past, present and future. Based on North (1991)'s definition, the institution is therefore the historical evolution of an economy. Azari & Smith (2012) proposed that the institution can operate in multiple directions. This includes the institutional change in the direction from the formal institution to the informal institution, as well as, from the informal institution to the formal institution. It is said that the formal and informal institution is dynamic and that both the formal written rules and the informal unwritten rules can actively influence institutional change in one another. Azari & Smith (2012) state that if written formal rules change, then subsequently the unwritten informal rules must change as well. Likewise, if the direction was reversed and the informal rules changes then a change in the formal rules will be observed. This is because both the formal and informal institution is interconnected and it is the equilibrium between the two institutions that maintain a harmonious society.

#### **3.7.1 Interaction between the formal and informal institution at the individual level**

When the formal conditions are clear, i.e., have effective law enforcing properties



and are able to support the market, this will encourage individuals to pursue opportunities formally. However, in the reverse scenario, when the formal institutional boundaries are unclear, but the economy has vast potential, individuals will feel inclined and are motivated to use informal actions (Lee & Hung, 2014). In the case of individuals who use informal actions, these individuals are considered as institutional entrepreneurs - that is, individuals whom "*envision new institutions as a means of advancing interests they value highly yet are suppressed by existing logics*" (Greenwood & Suddaby, 2006: 29). Institutional entrepreneurs have an invested self-drive and are able to earn the legitimacy of informal action by society. Institutional entrepreneurship is particularly evident in emerging economies, wherein the public may fear or have little trust in the formal economy (Thai & Turkina, 2014). Typically seen in these conditions are weak regulatory and governing environments; therefore entrepreneurs can obtain legitimacy without the need for formal regulations (Thai & Turkina, 2014).

When the informal actions encouraged by the institutional entrepreneur have become widely adopted by society to the point that there is a strong desire to promote a transitional change, the actions will be institutionalized by the formal institution. Scott (1987) argues that actions of institutionalization are significant because forms of actions will become associated with specific social classes, for example, managers will give orders to subordinates whom in turn will follow because it is considered the norm. Berger & Luckmann (1967) explains institutionalization as when habitual actions become so fixed in the consciousness of the human mind that it now becomes considered as "*this is how these things are done*" in a social situation.

In conducting business activities outside of the formal institution, individuals will face challenging conditions such as a lack of access to resources due to operating outside of formal legal boundaries. As a method of obtaining resources, entrepreneurs can form a "collective identity." This means forming bonds with individual groups, i.e., creating a network of bonds between the entrepreneur and others (Lee & Hung, 2014). By forming a network of close bonds, a sense of identification is formed. This is a cognitive sense of moral and emotional attachment that is made to the group. For example a feeling of similar and relatable attributes due to a similar cultural or racial background (Webb et al., 2009). As individuals

define themselves within a system of familiar social norms, values, and beliefs, this will act to further reinforce the individual's perspective (Webb et al., 2009). A collective identity helps to facilitate access to resources such as labour, materials, and financing (North, 1994).

### **3.7.2 Interaction between the formal and informal institution at the organizational level**

DiMaggio & Powell (1983) argues that the formal institution acts to constrain the actions and behaviour of organizations. As mentioned previously, when activities that are performed outside of the formal institutional boundaries are adopted by a group of members within society, this can lead to the rise of an informal economy (Webb et al., 2013). Organizations (i.e., informal organizations) arise within the informal economy due to external environmental changes and the creation of new economic opportunities (Lee & Hung, 2014). Informal organizations include firms who have a distrust of in the government thus perform outside of the legal jurisdiction (Webb et al., 2009). Such examples include, family-run enterprises, particularly those found in emerging markets where to register a business involves administrative hurdles and an onerous process (Khavul et al., 2009). As informal organizations are technically operating outside of the legal system, regulators, therefore, have the ultimate authority to shut down informal business activities. Thus, in driving institutional changes, informal organizations have to achieve legitimacy and legitimize the meaning of their informal activity (Pejovich, 1999). In other words, informal organizations have to create an identity that can win support, increase their popularity, and create market power - all the while facing formal constraints.

When these informal organizations are mass adopted by members of society, this can propagate institutional change, i.e., drive formal institutional change. In the context of instigating formal institutional change, as the informal organization faces broader contextual changes it strengthens over time and acts to protect its defining characteristics (Polletta & Jasper, 2001). The organization's identity increases in members and the organization will now become a valuable source of information

(Gaur, Kumar, & Singh, 2014). This then allows the informal organization to obtain key resources, thus further stimulating growth (Webb et al., 2009). Through amassing informal users, the collective momentum can change the psyche of what is now deemed the appropriate behaviour. The informal organizations can, therefore, challenge the formal rules of the game. Supported by Zucker (1977) and Meyer and Rowan (1977), it is argued that, as institutions are socially constructed templates for action. Using this perspective, organizations are able to share the same interpretations of behaviour, which can eventually acquire moral status and shape future interactions. Growth in informal organizations will increasingly attract attention from the formal institution. This in turn subsequently encourages the formal institutionalization of these informal organizations by the legal jurisdictions. Informal organizations are an example of how one group's norms, values, and beliefs may eventually become the basis of new formal laws and regulations.

### **3.7.3 Interaction between the formal and informal institution at the national level**

Pejovich (1999) explains that during uncertain climates such as that of a transitional economy; the formal institution can be compromised wherein regular and established patterns can be disrupted. This, in turn, creates an environment where there is a lack of public support and general societal distrust, thus causing the discontinuation of the continuity of formal written rules (Lee & Hung, 2014). During these conditions, individuals can navigate through environments of uncertainty while processing incomplete knowledge. This is achieved by relying on creative human interactions and exchanges, in addition to the use of the informal institution (Dau & Cuervo-Cazurra, 2014). Individuals can create new opportunistic gains through developments in knowledge, innovation, and access to activities during tentative conditions (Pejovich, 1999). Grzymala-Busse (2010) argues that scenarios wherein the changes in the formal institution lead to weakened enforcement of formal policies; create opportunities for the informal institution to exploit loopholes. For example, during the Chinese dual track reform era<sup>35</sup>, markets were in transition

---

<sup>35</sup> The initial reform period involved China transitioning from a fully planned economy to one that gradually opened its markets. In doing so, this involved changes in the macro policy environment, resource allocation, and micromanagement system. To avoid fully liberalizing its markets and to

between the old planned system and halfway liberalized. This created a state of limbo wherein formal policies were undermined due to a state of uncertain transition. This weakened formal institutional environment subsequently led to an ad hoc method of resource distribution. Key state resources were distributed based on social networks, family circles, and local “in-groups” with the political figures in charge (Hitt & Xu, 2016).

In other institutional scenarios, some formal institutional rules may be in contradiction to one another, i.e., some activities which are governed by formal written rules cannot be obeyed simultaneously. Therefore the informal institution can be used to coordinate the rules and resolve the conflicting tension (Azari & Smith, 2012). The reason for the conflicting formal rules is due to the rules being created during different times in light of very different socio-economic experiences. Therefore the use of the informal institution can create stability during uncertain or conflicting situations (Azari & Smith, 2012). It is believed that many informal institutional rules act as a substitute for new formal rules (Grzymala-Busse, 2010). Through the informal institution, new rules and behaviour can be legitimized and thus lead to new societal norms (Pejovich, 1999). The informal institution can, therefore, be used to encourage the government to re-address the formal institution by creating and altering formal rules. In this case, the direction of change is from the informal to the formal institution.

### **3.8 Application of the formal and informal institutions and the direction of the interactions in the China context**

In this section, the institutional theory will be applied to the Chinese context. In doing so, the direction of the interaction between the formal and informal institutions and how they influence behaviour at the national, organizational, and individual levels will be observed. In the case of China, the national level will correspond to the central government; the organizational level will correspond to the central SOEs, and the individual level will correspond to the SOEs top-level managers.

---

ensure stability during the transition, China used a dual track system wherein both a planned and market economy was used simultaneously (Lin, Cai, & Li, 1998; Lin, Cai, & Zhou, 2003; Lin, 2004).

From this section, it will be seen that whilst the institutional change in the conventional theory originates from the individual level in the informal institution, and is eventually institutionalized by the formal institution at the national level. In the China context, however, institutional change occurs in the reverse direction. That is, the informal institution remains consistent, and the institutional change stems from the formal institution at the national level and is directed to the organizational and individual level, indicative of a top-down fashion.

### **3.8.1 The informal institutional foundation in the China context**

#### **3.8.1.1 Origins of Chinese pride: Ancient China**

China remains one of the oldest and continuous civilizations in human history. Unique to China, the country has managed to remain a culturally unified nation throughout much of its history (Eberhard, 2013). It is well documented that the Chinese dynasties of ancient China led pioneering imperial civilizations for several thousands of years (Benn, 2004). In the ancient world, China was the regional hegemon; it had a substantial economic and political influence throughout most of its history in East, Southeast and Central Asia (Lin, 2013).

The Chinese dynasties were admired for their rich and broad knowledge and their technological advancement. The Han dynasty developed trade routes including the Silk Road to promote Chinese culture and economic prosperity in Central Asia (Callanhan, 2016). The Tang dynasty was responsible for enriching the Chinese culture through philosophers, artists, and intellectuals, and opening up China to foreign influence (Tsin, 1995). Under the Song Dynasty, China continued to prosper economically and culturally; and notably, gunpowder was invented and widely used in warfare thus furthering Chinese military advancement (Fairbank & Goldman, 2006). The Yuan dynasty can credit itself with unifying the vast, culturally diverse, territories of ancient China into a single centralized system following 300 years of fragmented rule (Twitchett et al., 1978). The unification of China meant the strengthening of national integration and greater communication between different regions thereby allowing extensive domestic and foreign trade. By the start of the

15<sup>th</sup> century, China dominated nautical aviation due to the invention of the compass, in addition to pioneering papermaking, movable printing, the use of paper currency, and establishing naval military supremacy (Lin, 2013). During the Ming dynasty, expanded maritime trade routes were developed to connect China to the West, and moreover Chinese ships were commissioned to conduct numerous exploration voyages (Maddison, 2006). By the last Chinese Qing dynasty, there was great demand for Chinese goods such as tea, silk, and ceramics by the West (Fay, 1975). As Western empires were gradually expanding across the world, the imbalance of trade ultimately led to China's first Opium war and the downfall of China's last imperial dynasty (Fay, 1975).

The Chinese invented and amassed a vast amount of technology throughout their many dynasties. To this end, it can be argued that technology and innovation are ingrained in the national identity of China. The advancements in science and technology, along with progressive thinking allowed China to project their influence to their neighboring countries and regions as well as Western civilization (Reischauer, 1974). From its well-documented historical achievements and continuous civilization, it is argued that China has a coherent value system that has instilled a strong sense of national identity.

### **3.8.1.2 Century of humiliation**

Despite China's establishing itself as a regional and global power, China's influence began to decline from around 1840 onwards during the Qing Dynasty. This marked the start of what China calls a "century of humiliation" by colonial powers (Callanhan, 2016). Beginning in 1839 and lasting through until 1949, this period in Chinese history remains a painful memory to the country (Shang, 2013). The humiliation lasted for 109 years and involved two Opium Wars, a Sino-French War, two Sino-Japanese Wars, colonial occupations, the signing of unfair peace treaties, and revolutions (Kaufman, 2010). Furthermore, during this century, China suffered losses in every war in which they engaged, in addition to having to concede major concessions and strategic trade routes to foreign powers (Peyrefitte, 1993). As the West began to progress technologically and flourish economically, China's

international influence began to decline, this turn of events ultimately China pushed to surrender to the West (Lin, 2013).

Mao Zedong proclaimed an end to the century of humiliation in 1949 upon founding the People's Republic of China (Yan, 2001). The world saw China close the doors to the West for several decades as a response to the humiliation suffered from foreign powers (Kaufman, 2010). Mao Zedong claimed the People's Republic of China marked a New China and the start of rebuilding a united domestic China (Yan, 2001). However, the closed-door system during the Mao Zedong era impeded China's growth and the isolation further fuelled China's decline on the international stage (Lin et al., 2003).

It is argued that the experiences of the national humiliation is an integral part of China's national identity and will continue to be for modern Chinese history, it is a deeply embedded part of the Chinese psyche (Wang, 2014). It is further argued by Gries et al., (2011) that the current ideals of the Communist Party can only be understood when one understands the history of China. The memory of China's past humiliation stems deeper than a psychological issue; it is an element of the Chinese national identity (Wang, 2014). The century of humiliation serves as a reminder to China of the hardships it has to overcome. A once wealthy country admired for its technological prowess, and culture forward thinking became poor and lost its global influence (Wasserstrom, 2015). After a century of decline in Chinese strength and global status, along with decades of being closed off to the world; the Chinese are committed and resolute in returning the nation to its former natural glory (Zhao, 2005). Thus, China believes their decline in history is something that should be corrected. The opening up of China has since become a necessary ingredient to the rise of China once again.

### **3.8.1.3 National rejuvenation**

This research asserts, that China's rich history of cultural and scientific achievements, encourages an innate and strong sense of national pride in the Chinese. This is also supported by Yan (2001) who states that Chinese politicians have often leveraged on the Chinese sense of national pride, with the concept 'national

rejuvenation' being a familiar narrative. Examples can be seen as far back as Sun Yatsen, Mao Zedong, Deng Xiaoping and, at present, Xi Jinping (Wang, 2014). Indeed, each leader, whether past or present, can be linked to a similar nationalistic agenda focused on re-establishing China's lost global prominence (Han, 2017). The rejuvenation of China should be thought of as an emotionally poignant concept. That is to say, to the Chinese, national rejuvenation is about restoring the status quo and reaffirming China's rightful place in the world; it is not about attaining new power or leverage over other nations (Gries et al., 2011; Li, 2017).

National rejuvenation is a long-term strategy where Chinese leaders have since worked towards laying the foundation for a better China for future generations. Reform and foreign policies have been gradual and approached with caution (Ferdinand, 2016). Since China reopened its doors to the West, China has gone from being an impoverished nation to the second largest economy in the world in four decades (Lin, 2013). The continued growth of China is precisely what attracts others to China's national development strategy. China's growing international prominence has been viewed as "the rise of China" however; the Chinese people view this as the "rejuvenation of the Chinese nation" (Yan, 2001). That is to say, the Chinese believe their status in the world will *return* to their former glory – in contrast to some Western views of this phenomenon, i.e., China's *rise* to new fortunes (Li, 2017).

The 'rejuvenation of China' has been carefully depicted by political leaders to drive nationalism and strengthen domestic support for economic reforms (Wang, 2014). In addition, the pursuit of national rejuvenation has served to cement support for the Communist party, while also making the state an integral part of China's national identity (Roach, 2016). When Xi Jinping took to office in 2012, he built on the concept of the Chinese dream, driving the ideology of the "great rejuvenation of the Chinese nation." The Chinese dream can be understood as an updated interpretation of the rejuvenation of China (Callanhan, 2016). This is because the Chinese dream shares the same fundamental principles as the concept of rejuvenation. The Chinese dream concept has since become a key ideology used by the Chinese state to offer a new narrative to replace the term "socialism with Chinese characteristics" (Ferdinand, 2016). In Xi Jinping's speech at the 19<sup>th</sup> CPC national congress in 2017, Xi openly called upon the Chinese nation to:



*“...Remain true to our original aspiration and keep our mission firmly in mind, hold high the banner of socialism with Chinese characteristics, secure a decisive victory in building a moderately prosperous society in all respects, strive for the great success of socialism with Chinese characteristics for a new era, and work tirelessly to realize the Chinese Dream of national rejuvenation.”*<sup>36</sup>

The poignant concept of the Chinese dream, creates a shared sense of purpose among the Chinese people at all levels i.e., the state, organizations, and the Chinese individual (Ferdinand, 2016). That is to say, the Chinese dream calls upon the Chinese people to collectively serve the nation for the greater good (Jin, 2014; Kerr, 2015). This is also supported by Chugani (2017), who argues that collectivism and a shared sense of purpose is a core value among the Chinese people. The concept of collectivism has a long history in China and, is deeply rooted in the Chinese psyche. For example, the Confucian concept *ren* (仁); which is formed by combining the character *ren* (人 i.e. man) on the left and *er* (二 i.e. two) on the right -- signifying the relationship between people (Lin, 2014). It is thus argued that, collectivism and thereby the collective nature of the Chinese dream, is a concept that resonates deeply with the Chinese people. That is, it is a common belief shared amongst the national (state), organizational (SOE), and individual levels (SOE managers).

### **3.8.2 Interaction between the formal and informal institutions at the national level: The central government**

In the current national level of China, China is a centralized broadly-planned economy. The decision-making power, policy development, as well as regulations very much remain with the core political party. In this case, society will follow the formal institution at the national level closely. Through this, the central government also ensures that it maintains order and control and that the one party ruling system maintains legitimacy and public support (Cui & Jiang, 2012). Thus it is imperative that the government minimizes any values that are in conflict with the party ideals to ensure that formal institutional objectives can be carried out (Zhao, 2005). In the

---

<sup>36</sup> CPC national congress. *Full text of Xi Jinping's report at 19<sup>th</sup> CPC national congress*; <[http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content_34115212.htm)>, 2017.

case of China, the formal objective is to rejuvenate China to its former glory. This formal objective has been institutionalized from the informal institution. This means the informal institution, i.e., the values; norms; and beliefs of society have been institutionalized and are now aligned with that of the formal institution, i.e., the central government. Subsequently, society collectively shares the same unwritten values, cognitive thinking and personal beliefs as the central state (Reynolds, 2008).

Following the Mao era, reforms led to the adoption of a more liberal approach to China's political beliefs, resulting in China's socialist ideology somewhat losing its influence when it began seeking market-oriented economic opportunities (Jakobsen & Jakobsen, 2011). Change was viewed as eroding existing institutional practices and challenging the legitimacy of activities which have been established over long periods of time (Child, Lu, & Tsai, 2007). This movement resulted in the central state being criticized for not being competent in protecting Chinese interests, ultimately resulting in many questioning the Communist party (Zhao, 2005). The U-turn in promoting a prosperous China was going against the long-established socialist values leading some members of society to believe that China had lost face to the West. It was clear that in order for the formal institution to carry out these state plans, the state needed to have the support of the public. The party used propaganda slogans "*to get rich is glorious*" to promote the new national ideology of seizing business opportunities and pursuing entrepreneurship (Gries et al., 2011). The political party defended China's new ideology by encouraging national pride through "building socialism with Chinese characteristics" (Montinola, Qian, & Weingast, 1995). This new type of nationalistic ideology was used to drive national support, and to make China stronger.

Though China is currently showing no signs of a political transition from a communist regime, it has however for the past three decades, placed great emphasis on becoming a market-oriented economy and welcoming globalization (Gilley, 2008). Addressed in the 10<sup>th</sup> Five Year Plan (FYP) was the historic event of China becoming a member of the World Trade Organization (WTO), with their membership being a catalyst for further economic change. This marked the first significant step that China took towards opening up to the outside world. Progress towards foreign trade activity included widening permitted activities towards foreign

businesses, improving the investment environment, greater allocation towards foreign investment funds, and better use of China's foreign exchange reserves. The 10<sup>th</sup> FYP also outlined and guided overseas investments by the state council through encouraging a “go out” strategy.

*“we need to implement a "going outside" strategy, encouraging enterprises with comparative advantages to make investments abroad, to establish processing operations, to exploit foreign resources with local partners, to contract for international engineering projects, and to increase the export of labor. We need to provide a supportive policy framework to create favorable conditions for enterprises to establish overseas operations. We also need to strengthen supervision and prevent the loss of state assets.”*<sup>37</sup>

A transition towards a market-based economy required the Chinese government had to justify its legitimacy. The central government can adjust the formal institution to be in line with changes in the external environment by ensuring that the informal institution remains consistent. There is a uniform nationalistic trust instilled in the Chinese, to have faith in the Communist party. As a result, the party can, therefore, adjust the formal institution according to its reform plans. Tung (2016) characterized this as "economic nationalism." According to Zhao (2005), the Chinese people share a commonality in a "dream of a strong China." Because of this common ground, the power of nationalism is particularly effective in uniting the people and strengthening solidarity. Nationalism is needed for the central state to influence the informal institution by motivating society to work towards elevating China's status (Tung, 2016). Nationalism was found by the central state as the most powerful tool in unifying values of the central to that of the society (Steele & Lynch, 2013). The national sentiment is expressed by “爱国” i.e., "loving the country" which is an important concept to encourage the Chinese to be loyal in serving the country (Zhao, 2005). In China, this means supporting and giving their loyalty to the party, i.e., the representatives of the country and nation. By strengthening the informal institution, the one party-one rule system has proven successful and necessary for maintaining political stability whilst China undergoes its socio-economic development (Gries et al., 2011).

---

<sup>37</sup> State Council. *Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development*, < [http://www.gov.cn/english/official/2005-07/29/content\\_18334.htm](http://www.gov.cn/english/official/2005-07/29/content_18334.htm)>, 2001.

The transition towards a more open market-based economy has consequently resulted in a change in dynamics of the formal institution. This includes the addition of new policies and regulations that were necessary to facilitate the opening of the Chinese economy. Critically, the central government encouraged competitive Chinese enterprises to make overseas quality acquisitions, exploit foreign resources, forge partnerships, and establish overseas operations (Karolyi & Liao, 2010). To do this, the state council proposed a more supportive foreign policy based environment with more favourable conditions to motivate Chinese enterprise to go overseas (Buckley et al., 2007). At the same time, the state council also increased supervision of SOE projects in order to prevent losses in state assets.

*“the construction of new investment projects and the merger and acquisition of enterprises will become important methods of foreign direct investments.... the overall strategic objective of China's utilization of foreign investments shall be: To further propel the utilization of foreign investments to be fundamentally converted from “being quantity oriented” to “being quality oriented.”* <sup>38</sup>

The current 13<sup>th</sup> FYP places great importance on the development of innovative technology. China is pushing to integrate advancement in emerging technology and internet solutions into their national goals with the objective of benefiting socio-economic development. Plans made by the state council such as "Made in China 2025" have been driving this agenda. This includes rolling out technological initiatives that will upgrade China's existing manufacturing sector and secure the nation's position as a pioneer and world leader in innovative manufacturing.

*“Made in China 2025”...At present, a new round of scientific and technological revolution and industrial transformation has formed a historic convergence with China's accelerated transformation of economic development mode...We must firmly grasp this major historical opportunity, implement the strategy of manufacturing a strong country...and strive to achieve a hundred years of the founding of New China through three decades of efforts. To build China into a manufacturing power that leads the development of the world's manufacturing industry and lay a solid foundation for realizing the Chinese dream of the great rejuvenation of the Chinese nation.”* <sup>39</sup>

---

<sup>38</sup> State Development & Reform Commission. *The Eleventh Five-year Plan on Utilization of Foreign Investments*,  
<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=38075ad8cfbe4e05bdfb&lib=>>, 2006.

<sup>39</sup> State Council. *Notice of the State Council on Issuing the “Made in China (2025)”*,  
<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>>, 2015.

Moreover, government-led projects such as the One Belt One Road initiative, i.e., revitalizing the historic Silk Road trade route provide a fitting narrative of how the central government is looking to reassert China's prominence. By the Chinese building infrastructure and trade channels that connect China to the West, China will have greater ease accessing the vast volumes of resources from central Asia (Dollar, 2015). While at the same time, boosting Chinese economic activity (Nordin & Weissmann, 2018). China has the full domestic support of the Chinese people because the One Belt One Road project resonates deeply with the Chinese people – it aligns with the narrative of the Chinese dream of reclaiming lost glory.

### **3.8.3 Interaction between the formal and informal institutions at the organizational level: SOEs**

At present within the Chinese economy, the formal institution at the national level sets the rules and goals which SOEs must follow and actively pursue. This means SOEs are directed formally by the state in a top-down fashion. The formal institutions at the national level will also define and set the boundaries on how organizations should behave and what actions should be used (Pejovich, 1999). Given the close proximity of SOEs to the central government, it is believed that the informal societal values have been infused into the mindset of state-owned organizations. Technically, SOEs are only overseen by the state and are no longer formally part of the state. However, SOEs are registered as a wholly-state-owned, non-corporate entity, and state agencies can hold shares (Brødsgaard et al., 2017). Thereby making the ownership of SOEs a complex subject open to debate. As a result of central government control and influence, all SOEs have become "*isomorphic*." That is SOEs converged and became homogeneous as a response to the constraining national strategy set by the state party. DiMaggio & Powell (1983) proposed that such conditions could lead to homogeneity in structure, culture, and output. This is found particularly to be true in China, as SOEs are large in size, with typically a substantial and often unproductive workforce, their complacency a result of the "iron rice bowl" or job for life concept, firmly rooted in SOE culture (Naughton, 2006).

SOEs remain central to the economy, and therefore state ownership is still a leading force (Naughton, 2006). The state views SOEs as strategically important to fulfilling state plans, with SOEs considered as the prized organizations of China. Given the formal control of SOEs by the state, essentially, it can be argued SOEs are an extension of the central state and thus SOEs share the same informal beliefs (Robins, 2013). As firms are shaped by the institution, this means firms will also base their choices on the interaction with the institutional environment (Du & Boateng, 2015). This is also supported by Li & Ding (2013) who argued that a firm's strategy is not just about ownership advantages but also involves the institutional environment that the firm is embedded in. As SOEs are owned by the state, they will naturally conform to rules and beliefs relevant to their political climate (Li & Ding, 2013).

With principle ownership by the state, many have questioned the management style within SOEs. The corporate governance, delegation, managerial incentives, and supervision of SOEs remain a central process. 96 SOEs still remain directly under the State-owned assets supervision and administration commission's (SASAC) control. This means all transactions by these 96 SOEs are related to the central party (SASAC, 2018). The relationship between the state and the central SOEs is further illustrated in Table 3.3 and 3.4. From this table, the number of state agencies involved in the cross-border M&A process can be observed. When performing a cross-border M&A, the SOE must get approval from SASAC and submit an application for approval to the National development and reform commission (NDRC) and the Ministry of commerce (MOFCOM). Current restrictions on overseas investments mean the application will be subject to extra scrutiny and vetting by all state agencies. Thus an additional application with supporting documents is now required (Baker McKenzie, 2017). A decision will be made by the state agencies generally between 20 – 30 working days depending on the deal value (however it may be longer if the target is on the restricted or sensitive list). If approval is granted, the SOE will need to convert their renmin bi (RMB) and obtain the foreign currency from the State administration of foreign exchange (SAFE) before they can go ahead with the overseas transaction. Thus given the rigorous screening on all overseas M&A deals, only those deals that are in line with the state plan while also being beneficial to China are approved. Secondly, SOEs are categorized into the following: commercial, public service, and other (Li &

Brødsgaard, 2013). Therefore, depending on how the SOEs are classified, this will influence its management and incentive system. For example, those SOEs that are involved in energy provision are incentivized to provide a public service to the people of China and develop forward-looking strategies to secure energy for the nation (Naughton, 2017).

*“The main aims of commercial SOEs will be to vitalize the state-owned sector, improve the efficacy of state capital, and maintain or increase the value of state-owned assets. To achieve these aims, they should engage in lawful and autonomous production and business operations under the principle of the survival of the fittest. The main aims of public-benefit SOEs will be to ensure people’s wellbeing, serve society, and provide public goods and services. To achieve these aims, they should give greater play to market forces, introduce market mechanisms, and improve their assessments of cost control, product and service quality, performance, and capacity”<sup>40</sup>*

As SASAC is the ultimate manager of China’s SOEs, they formally are the decision makers and have the ultimate rights of control. Given the formal directive from the state to the SOE, essentially these SOEs have to carry out SASAC orders. Therefore, for as long as the SOE will remain under state control, the SOE will deem political objectives to be of the most importance (Naughton, 2006).

China's pillar industries such as natural resources and heavy industry manufacturing still remain state dominant with minimal non-state enterprise access. These pillar industries are heavily influenced by the agenda of the central state and remain under close watch. There is little management diversity among these industries (Li & Ding, 2013). The state plans and directs these industries broadly through the FYPs. Resultantly, the largest cross-border M&A deals conducted by Chinese SOEs in terms of value during 2006 – 2010 were predominately in the areas of natural resources. They accounted for 88.2% of the total value of the deals observed in 2006 – 2010 (calculated based on the Zephyr M&A database). SOEs in these state prioritized industries are the largest firms with the most extensive distribution networks, the best supply of resources, and continuously have state support and financial backing. The fact these industries are protected from external market

---

<sup>40</sup> National Development and Reform Commission (NDRC). *The 13<sup>th</sup> Five-Year Plan for economic and social development of The People’s Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

entrants while also having better access to key resources illustrates their strategic importance, as well as, how critical SOEs are to the Chinese economy.

Table 3.3. The central government agencies involved in the M&A process

Government Agencies	Abbreviation	Principal Role	SOE Approval required
State Council	-	Blueprinting the overall long-term vision on FDI at the national institutional level.	-
Peoples Bank of China	PBC	Influences overseas FDI by increasing/decreasing the RMB, interest rates and deciding the policy on foreign exchange.	-
State administration of foreign exchange	SAFE	Monitoring foreign exchange inflows and outflows. Managing China's foreign reserves. Gives SOEs a foreign currency allowance.	Yes
Ministry of Commerce	MOFCOM	Drafting FDI policies and regulations. Supervises all foreign-economic relations. Negotiations on foreign trade and investments. Represents China at WTO. Ensuring China's economic trade meets international agreements and conducts.	Yes
National development and reform commission	NDRC	Sets China's overall economic and industry policies and reform plans. Lists the industries and countries that China encourages investments in.	Yes
State-owned assets supervision and administration commission	SASAC	Manages SOEs and state-owned assets.	Yes

Sources: Constructed by the author based on Luo, Xue, & Han (2010); Sauvnt & Chen, (2014) and Jones & Zou (2017)

Table 3.4. Compliance procedure on cross-border M&A investments

Government Agencies	Application filing required	Extra application filing required	Processing time for approval (working days)	Deal value (USD million)
SASAC	Yes	For projects on "sensitive list."	20	Any
NDRC	Yes	Yes	30	More than 300
			20	Less than 300
MOFCOM	Yes	Yes	20	More than 300
			20	Less than 300
SAFE	Yes	Yes	Subject to approval from SASAC, NDRC, MOFCOM	Any

Sources: Constructed by the author based on Sauvnt & Chen (2014) and Baker McKenzie (2017)

SOEs are argued to be assets of the home country which in turn makes them part of the home institution (Cui & Jiang, 2012). This means when SOEs conduct business activities, it may be the SOEs objective to serve the mandates of the central state. In doing so, this would indicate that the SOEs act in the interest of the home institution



rather than challenging them (Cui & Jiang, 2012). SOEs belong to the state thus M&As are viewed as investments made on behalf of the people of China. Therefore all investments need to have a specific purpose. Currently, all SOEs and SOE managers have directed their efforts to focus on two principle state projects – Made in China 2025 and One Belt One Road. This means all overseas M&A deals are focused on targeting targets that align with these state projects (Global Development Policy Center, 2017). In following this approach, M&As will more easily obtain state approval. Moreover, these deals are given further priority as they fall in line with the broader objective of reinstating China's former excellence.

#### **3.8.4 Interaction between the formal and informal institutions at the individual level: Top-level managers in SOEs**

The informal ideals of China are used by the central government to legitimize the ruling of the state party. This means that society entrusts the central state to plan and take the best course of action for the development of the country. The formal institution will dictate for individuals to conform to rules predetermined by central authorities. Individuals will closely follow the *rules of the game* set by the central state with little deviation (Zhao, 2005). SOE top-level leader positions are directly appointed by the state council, and SOE senior managers are specifically appointed by SASAC (Brødsgaard et al., 2017). Evidently, this illustrates that state controls can have an influence at the individual level directly through the formal institution in a top-down fashion. SOE top-level managerial appointments such as that of a chairman correspond to the minister level rankings within the Communist party (Leutert, 2018). This is an existing high-level political ranking; thus informal political beliefs are deeply embedded within the appointed personnel. In other words, these SOE managers are inherently political figures themselves. Therefore, they will also share the same informal beliefs as the central state party. Consequently, there will be no incentive for the SOE managers to deviate from state plans. Resultantly this ensures that the appointed political figures are the best candidate to guarantee the overall objective of national rejuvenation is carried out (Hout & Michael, 2014).

The close relationship between the central state and the SOEs results in an authoritarian style of management. For as long as the central state is involved in the ownership structure, the central state will always determine how SOEs should be managed. For example, the state council strategically positions all top-level SOE managers; resulting in SOE managers having very little autonomy (Robins, 2013). SOE managers must fulfill state orders regardless of whether it is in the best interest of their organization. Moreover, the state mandate of dictating that candidates are selected based on the fulfillment of political conditions mean that selected SOE managers can often not be the best candidates. In fact, during the initial periods of reform, it was not uncommon to observe SOE managers with minimal managerial and business experience (Hout & Michael, 2014). However, as China has grown in domestic and international experience, the international experience of SOEs managers has also grown in accordance. Currently, even though SOE managers are still politically appointed, SOE managers are usually capable, experienced, and politically astute individuals (Robins, 2013). Appointed managers by the central state are motivated to perform well in the SOEs due to their political career aspirations, and it is the state council that has the power to politically promote managers (Leutert, 2018).

Cao et al., (2013) speculated that many SOE managers are driven by political promotion. Following successful management of an SOE, there is an unwritten rule that managers will be politically promoted. One way for the SOE leader to position themselves for a political promotion is to conduct a successful cross-border M&A. Yang, Wang, & Nie (2013) studied the factors influencing the political promotion of SOE executives. It shows that economic performance, i.e., growth of operating revenue highly affects the chance of development. M&As are indeed a quick way for an SOE manager to acquire profitable assets and thus increase the value of the SOE. However, acquired targets need to be specifically in line with the current state plans. For many SOE managers, the embedded informal nationalist beliefs and the love of the country has resulted in great pride in representing such an important organization. After all, the SOE managers are political figures themselves. The state has called for SOEs to be model citizens through their duty and responsibility to support and defend China (Zhao, 2005). These values will influence SOE managers

to act with the necessary conviction to fully convey China's strength both domestically and internationally.

### **3.9 Conclusion**

This chapter has discussed the conventional motivations of cross-border M&A undertaken by typical organizations. Such motivations include economies of scale and scope; capability upgrades; and market access and distribution networks. It was discussed that these conventional motivations are not entirely sufficient in explaining the cross-border M&A context experienced by Chinese SOEs. This is because these conventional motivations are based on organizations from developed economies. The literature assumes that the organizations are well-established players with significant market share, possess significant advantages, and are competitive in the domestic market. Therefore, the rationale to seek new markets is because the firm has the relevant capabilities, assets, and resources to exploit when going overseas. In this case, the motivation to conduct a cross-border M&As originates from the firm level itself where they have full autonomy to execute and actively pursue cross-border M&As. However, in the case of China, Chinese SOEs are not in possession of the overwhelming firm level assets such as innovative technologies or competitive advantages that are typically observed in Western firms. Moreover, despite having a lack of international overseas experience, SOEs are encouraged by the state (in a top-down fashion) to perform cross-border M&As. Thus, the rationale of conducting a cross-border M&A originates at the state level, and subsequently, the SOEs have a constrained type of autonomy. As seen in Chinese SOEs, the motivations for cross-border M&As are greatly influenced at the national level and therefore cannot be fully explained by solely basing it on firm-level motivations. For this reason, it is essential to determine how and why the state uses SOEs as an instrument to conduct cross-border M&As.

To begin answering this question, this chapter has proposed the adoption of the institutional perspective for this research. The concept of the institution by sociology standards is defined as the structure by which social processes including cognitive mindsets, norms, routines, and actions that are amassed over time, subsequently

becoming a universal standard for socially acceptable behaviour. This institutional concept has been extended to the realm of management wherein the observed societal actions are a result of formal and informal institutional rules that influence organizational behaviour and individual processes. In this context, the institution itself is made up of the formal and informal institution. It was explained that taking an institutional perspective is critical to undertake an in-depth analysis of the cross-border M&A phenomena witnessed by Chinese SOEs. However, this chapter highlighted that the existing literature is lacking in research that sheds light on the dynamics between the informal and formal institution in China. Specifically, the literature does not adequately address the significance of China's past history, its pride, and the country's sense of national identity, which is fundamental if the role of the formal institution is to be adequately understood. Moreover, the existing literature has overlooked the extent of the influence of the institution in addressing the unique relationship between the state, SOEs, and SOE leadership. Therefore, the literature does not fully explain how the state can both formally and informally direct the subsequent behaviour of SOEs and thus encourage cross-border M&A.

It was further highlighted by this chapter that the informal institution, namely, China's desire for national rejuvenation is the underlying informal driver of cross-border M&As undertaken by Chinese SOEs. Chinese civilization has a rich cultural legacy, a well-documented history dating back 3000 years, and was once considered a regional hegemon with huge political and economic potential. Despite China's prolific historical achievements, China is haunted by the "century of humiliation." A period which saw the demise of China's glory under colonial powers. Mao Zedong proclaimed an end to the century of humiliation in 1949 upon founding the People's Republic of China and proverbially closed China's doors to the West. However, China's isolation from the West impeded China's growth and further fuelled China's international decline. The experience of the national humiliation remains an integral part of China's national identity. The century of humiliation serves as a reminder of China's decline in strength and global status. Thus, China believes their decline in history is something they need to correct. Therefore, national rejuvenation has since become an emotionally affecting concept centered on returning China to its once former glory.

As the boundaries of the formal and informal economy are dynamic and can shift in response to the external environment; this means the perception of what society deems is formally acceptable will change allowing room for the legitimization of the informal institution. This chapter argued that in the conventional institutional theory, institutional change originates from the individual level within the informal institution. That is an individual who can envision new institutional rules and is motivated to encourage institutional change to advance their interests. The new informal beliefs can be supported at the organizational level if the shared belief is a common objective. If the new institutional rule is adopted by enough members of society, it can be institutionalized into the formal institution and drive formal institutional change. Interestingly, in the Chinese context, it is indicative that institutional change occurs in the reverse direction. That is, change is directed from the formal institution at the national level to the organizational and individual level respectively in a possible top-down fashion - all while the informal institution remains constant.

# **Chapter 4**

## **Research Methodology**

## **4.1 Introduction**

This chapter will present the methodology used for this thesis and will discuss in detail how a methodology was designed and adopted for this study. This chapter will begin by introducing the primary research questions of this thesis along with their objectives. These points will be addressed and answered throughout the remainder of this thesis. The methodological framework used to underpin these questions and objectives will follow. Additionally, an overview of the research philosophies and the research approach will be provided. Specific details regarding the qualitative research design and justification for choosing this research method will also be outlined. Further, an overview of the grounded theory research strategy, in addition to an explanation of the data collection methods used for the interviews in this thesis will also be defined. Finally, the data analysis, issues surrounding validity and reliability, and approaches to enhance the quality of the chosen research methodology will be discussed.

## **4.2 Research approach and philosophies**

### **4.2.1 Inductive approach**

This thesis will follow an inductive theory approach. This means the relationship between the theory and the investigation will take an inductive stance, with new theory generation being the desired outcome (Bryman & Bell, 2015). The inductive research of this thesis will draw upon interview data and the participants' understanding to grasp a firmer comprehension of the subject matter. This inductive research will follow a grounded theory method (further discussed in section 4.3). This will allow the theory to be first generated using emerging concepts that eventually link the fundamental categories of the theory together (Charmaz & Belgrave, 2007). However as Bryman & Bell (2015) point out, following an inductive approach does not necessarily guarantee the generation of a robust theory. In fact in inductive research, theory is often used and is required as a background during initial investigation stages (Annells, 1996). An inductive approach was chosen over a deductive approach because of the area of study that this thesis is

focused on. Specifically, in the case of this research, the relationship between the formal and informal institution in the China context is a stream of research that has yet to be fully explored. Moreover, much of the existing literature is limited in the application of the institutional theory to the field of cross-border M&As. Thus, this research will start in an exploratory fashion to allow the identification of common themes and concepts (based on collected data) to be identified.

#### **4.2.2 Ontological and Epistemological considerations: An interpretivist approach**

At the core of each research project are ontological and epistemological considerations. Ontology is concerned with the philosophy of reality, and the assumptions of the nature of social reality, what exists, and what one believes constitutes social reality (Blaikie, 2009). Broadly speaking there are two ontological streams of thought, realism, and relativism. Realism concerns the acceptance that the social and natural worlds have different realities, but both forms of these realities are probabilistically apprehensible (Annells, 1996). Therefore, realism would assert that reality can be objectively measured in a methodical fashion, thus limiting the biases of researchers (Madill et al., 2000). Relativism, on the other hand, is based on a rendition of a reality that cannot actually be known but instead is always interpreted. This means that knowledge is linked to a time and place, and that reality is made up of local and specific realities (Annells, 1996). Moreover, relativists believe that possible interpretations of realities can coexist meaning it can be assumed that reality exists only as far as one's perception of it. This also means that reality is not independent of one's perception, and as a result of this, relativism follows a subjective approach (Blaikie, 2007). This research will support the relativism ontology to guide research. As this study is specific to the China context, it is believed that the institutions governed by the central state are what create the reality of the Chinese SOEs and SOE managers. As a nation with an authoritarian government, it is the experience of the formal institution that is fundamental to creating a reality for society and the people of China.



Epistemology is treated by Fuller (2007) as an understanding of how and what we should know, on the basis of what we assume to exist and what can be known. According to DeRose (2005), epistemology is the theory of knowledge. Epistemology assists the researcher through the research process by providing a general overview of what should be considered as acceptable (Bryman & Bell, 2015). Broadly speaking there are generally two epistemological approaches; positivism and interpretivism. Depending on the belief of the researcher these paradigms can influence the adopted research method.

A positivism perspective is generally associated with a quantitative and “scientific” approach to research in which the research involves a logically deduced hypothesis confirmed using evidence (Charmaz, 2006). This indicates that the researcher treats reality as something that can be measured, in which cause and effect principles can be applied to (Kuhn, 1970). One of the principal shortcomings of this approach is that a positivist outlook fails to capture the complexities of human behaviour and social interactions (Lee, 1991).

Using an interpretivist approach. This research aims to attain an in-depth understanding of the institutions and the effects that they can have on the behaviour at three social levels (the state, SOEs, and SOE managers). Despite interpretivists believing that the nature of reality can be recorded, it is necessary, however, for a research strategy to define the differences between human nature and the elements of natural sciences. In this case, a non-scientific approach is necessary to capture the real “meaning” behind the actions and behaviour, rather than emphasizing “measurement” (Bryman & Bell, 2015). This means an interpretivist approach can capture insight into the lives of those with real-world experience. Charmaz & Belgrave (2007) stated that this would be expressed through the thoughts, feelings, actions, beliefs of the research participants.

### **4.3 Qualitative research design: Grounded theory**

In following the relativist ontology and an interpretivist epistemology, these philosophical approaches assume data collection through a qualitative research strategy. This will rely on direct experiences on the social phenomena in their context as opposed to statistical procedures and quantification. Qualitative methods are used when little is known on the research subject, and the researcher seeks to collect information-rich data (Snape & Spencer, 2003). Moreover, qualitative research rejects natural science practices and agrees that individuals interpret the social world in different ways thus social reality is continuously shifting (Snape & Spencer, 2003). Supporting this, Pandey & Patnaik (2014) defines qualitative research as a multi-method focus type of research that requires an interpretative approach to the subject matter.

Grounded theory is a systematic method that is employed in qualitative research. It seeks to generate new theory which is made possible through its set of consistent data collection and analytical techniques specifically designed to develop substantial theory (Charmaz & Belgrave, 2007). The grounded theory technique is characterized by its constant data comparison phase in which codes, categories, and themes are developed through data analysis (Strauss & Corbin, 1994). Secondly, grounded theory is hallmarked by its theoretical sampling in which the researcher identifies data sources to collect while the emerging theory is being developed (Anells, 1996). The process of grounded theory means the research is developing codes, analyzing the data, and deciding what data to collect next and where to get the data from – all simultaneously as the theory is emerging (Strauss & Corbin, 1994). Through this systematic methodological process, the researcher can inductively discover and generate a theoretical account of the social phenomena through the experiences of people operating within the field (Creswell, 1998). Moreover, the systematic process of data collection, analysis, and constant comparison can highlight reoccurring data patterns thus allowing for substantial theory to be inductively developed (Strauss & Corbin, 1997).

As per Charmaz & Belgrave (2007), the key processes for handling qualitative data using the grounded theory research method are:

- 1) Data collection and analysis of data in phases (to be explained in section 4.5.2)
- 2) Creation of analytical codes which are developed from the collected data
- 3) Constant comparison, theoretical sampling, and greater data collection to refine core concepts
- 4) Writing analytical memo notes to explain categories
- 5) Preliminary generation of theory to explain the behaviour/processes
- 6) Theoretical sampling for theory construction to check and refine the theory

In the case of this study, as grounded theory provides the ability to close social engagement with the research participants, it therefore, allows access to a rich understanding of the dynamics of the Chinese institution. This in turn, encourages the researcher to closely observe what is happening within the data from an interpretist viewpoint. The close engagement with the social phenomenon allows the collection of rich, detailed, and full data. As Charmaz & Belgrave (2007) state, this includes accurate, rich data on thoughts, feelings actions, context, and structure – all of which are imperative to understanding the dynamics between the formal and informal institution.

Very little research has been undertaken concerning the institutional theory in the China context with an emphasis on cross-border M&A by SOEs. Given the lack of literature on this subject; the grounded theory strategy is beneficial as it allows progressive development of theoretical concepts. Grounded theory places emphasis on creating theory through the research data as the data is being collected. Thus the researcher can develop theoretical categories to explain any phenomenon experienced *directly* from the data (Charmaz, 2006). Moreover, the grounded theory allows for qualitative data to be as rigorous and systematic as quantitative data. This is because the procedure allows the researcher to continuously check, redefine and develop ideas (Charmaz & Belgrave, 2007). Importantly, the grounded theory also allows the gathering of more data and further analysis, as the theory is beginning to emerge. In doing so, this allows the researcher to amend the initial interview

questions, to refine the areas that have provided insight or omit the areas that may not have been successful (Strauss & Corbin, 1994).

However, it must be noted that, in addition to using the grounded theory approach, this thesis will also systematically analyse formal regulations and written policies released by the Chinese central government. The use of supplementary secondary data was deemed imperative to guarantee an objective systematic analysis to this research. That is, to avoid an over-reliance on findings purely based on the data collected from the interviews, and thus constraining the generalizability of this research. By supplementing this research with additional secondary data, i.e., central government's statements, regulations, and policies; it provides an additional content dimension to the analysis thereby reducing researcher/participant' biasness and subjective opinions. Thus, ensures that the findings of this research can be extended to other settings with a broader sample population.

## **4.4 Data collection strategy**

### **4.4.1 Primary data collection: Qualitative Semi-structured interviews**

Qualitative interviews are considered integral to an interpretivist grounded theory study. As per Table 4.1, it was deemed the most appropriate data collection strategy to explore the dynamics between the formal and informal institution in the China context, in addition to being the best method for understanding the subsequent influence on cross-border M&As by Chinese SOEs. Using in-depth interviews provides an opportunity to explore preliminary ideas, test concepts, and obtain feedback on information (collected from the literature review) from participants involved in the SOE cross-border M&A process. Interviews, therefore, provide an opportunity to gain a complete picture of the Chinese institution, before generating a China-specific framework that can meet the objectives of this research.

Secondly, given the complexity between the central government and SOEs concerning ownership and management, it is critical to gain a deep understanding of how the state can affect SOE behavior and subsequent outcomes. An interview

format allows the interviewer to probe the interviewees at length with regards to their knowledge on key issues relevant to the research. Specifically, open-ended questions allow the participant to talk freely with no fixed constraints thus permitting the researcher to obtain the rich detailed thoughts and attitudes of the key industry elites (Aberbach & Rockman, 2002). By conducting interviews with individuals that are involved directly in this environment, it provides the opportunity to obtain concepts from an expert point of view that could not have been observed without such insight. Thus, interviews were deemed the most appropriate means to collect authentic, rich, and complete data.

Lastly, this research involves a tacit China-specific dimension, in which the significance of the China-specific qualities such as their values, beliefs, and norms will be highlighted through the interaction of the formal and informal Chinese institution. Specifically, a focus on understanding how informal beliefs becomes institutionalized by the formal institution. As much of these characteristics are tacit in nature, this research would be limited in its explanatory power if a quantitative approach were to be used instead. This is because the intangible concepts highlighted in this research such as “*pride*” and “*national rejuvenation*” cannot be easily quantified. Therefore, it is primarily through interviews providing an in-depth insight into the significance of these tacit qualities can be fully captured and well defined.

This research has chosen to use semi-structured interviews. The primary reason for selecting semi-structured interviews is because the balance of structure and flexibility in this technique can generate rich illuminating data when investigating new ideas (Robson, 1993). The researcher remained open to the fact that the responses from participants could be very different from those initially predicted/expected. During the interview, most questions were modified in their wording and order – depending on the direction and flow of the interview. Additional questions were asked based on the participant’s responses, so as to explore or further develop a concept. Moreover, some questions were left out, if they were deemed as either inappropriate or were not expected to enhance the interview.

All interviews were voice-recorded to facilitate a thorough analysis of the collected data. Additionally, the recording of the interviews enabled the researcher to review

the delivery of questions and follow up responses. Field notes were also made during each of the interviews. These first allowed for reflection on the content and context of the interviews, and secondly, allowed the researcher to identify the areas that were well received and those that were in need of adjustment. Lastly, the notes highlighted any key points or sensitive issues discovered during the interviews, and therefore acted as a soundboard for theoretical and conceptual development.

#### **4.4.2 Schedule of prepared interview questions**

The topics and questions were created to guide the researcher during the interview process (see Appendix 2.5 Table 6). It was essential to develop a flexible guide with some preliminary questions to ensure that all objectives of this research are covered during the interviews, while at the same time providing room for exploration and developing participants' responses. Most importantly, as this research deals with confidential and classified subject matter, questions were structured in a way that assured sensitivity and while also facilitating the best results. This guide was tested during a pilot study and was amended in-line with the feedback of the research participant.

The first set of questions (warm-up) were designed to ease the participants into the interview. This was then followed by questions that highlight the consistency of the informal belief of national rejuvenation at the national, organizational, and individual levels; thus institutionalized into the formal institution (objective 1). The next set of questions was regarding the formal institution and the influence of the state on SOEs and the behaviour of SOE leaders and whether this influence can motivate cross-border M&As (objective 2).

Table 4.1. Methodological review table

Criteria	Interviews		Questionnaires		Case studies	
	Advantages	Constraints	Advantages	Constraints	Advantages	Constraints
<b>Time</b>		<ul style="list-style-type: none"> <li>Greater time needed to collect data – interviews vary in duration</li> </ul>	<ul style="list-style-type: none"> <li>Respondents fill and return questionnaire to researcher</li> </ul>			<ul style="list-style-type: none"> <li>Longitudinal / ethnographic studies conducted over a long period of time.</li> </ul>
<b>Sample size</b>		<ul style="list-style-type: none"> <li>Can be small sample sizes</li> </ul>	<ul style="list-style-type: none"> <li>Larger sample size / participation in one survey distribution</li> </ul>			<ul style="list-style-type: none"> <li>Small number of subjects</li> </ul>
<b>Response rate</b>	<ul style="list-style-type: none"> <li>Low refusal rate for personal interview if confidentiality ensured</li> </ul>			<ul style="list-style-type: none"> <li>Low response rate for mailed questionnaires with poor quality answers</li> </ul>	<ul style="list-style-type: none"> <li>In-depth detailed qualitative accounts of the real-life environment and cognitive processes</li> </ul>	
<b>Access to information</b>	<ul style="list-style-type: none"> <li>Ability to attain depth and rich information. Permits flexibility in exploring new topical areas during interview – tests the limits of respondents' knowledge</li> </ul>			<ul style="list-style-type: none"> <li>Rigid nature and lack of flexibility in questions. Answers restricted to fitted category</li> </ul>		<ul style="list-style-type: none"> <li>Situational therefore narrow ability to extend and generalise findings from a single case</li> </ul>
<b>Data analysis</b>		<ul style="list-style-type: none"> <li>Requires onerous transcribing of interviews</li> </ul>	<ul style="list-style-type: none"> <li>Predetermined structures therefore short coding time</li> </ul>			<ul style="list-style-type: none"> <li>Often long with masses of documentation - need to be managed and organized systematically</li> </ul>
<b>Reliability</b>	<ul style="list-style-type: none"> <li>Allows ability for immediate follow up on participant responses – interviewer can probe for more depth / clear any misunderstandings</li> </ul>			<ul style="list-style-type: none"> <li>Prone to errors and lack of consistency during survey responses.</li> </ul>		<ul style="list-style-type: none"> <li>Lack of rigour and tendency for biased interpretation of data. Subject to uncertainty when small sample is deployed.</li> </ul>

Source: constructed by the author, based on: Yin (1994); Baxter & Jack (2008); Fricker & Schonlau (2002); and Foddy (1994)

#### **4.4.3 Access and selection of interview participants**

This research followed the elite interviewing process wherein elite individuals were used to provide new information on what people think, their attitudes, values and beliefs on the subject matter (Tansey, 2007). The term 'elite' is considered by Zuckerman (1972) as a group of individuals that hold significant power, and a subset of particularly powerful individuals with prestigious influence. McDowell (1998) considered 'professional elites' as a group that are highly skilled, professionally competent, and class-specific.

The close relations and interconnectedness between SOEs and the Chinese government make it a challenging process to obtain permission to discuss any information regarding SOEs. This is further apparent when trying to find an SOE to discuss the topic of cross-border M&As. Firstly, the SOEs in China are notoriously selective to outsiders. There is no directory to locate relevant employees or, even, a generic contact email address for basic correspondence. Thus, it is an extremely cumbersome process to find candidates with direct insight into SOEs for an interview. Secondly, given the personal risks involved in disclosing sensitive information of a particular M&A deal (for instance for national security concerns), employees not familiar with the interviewer will be suspicious and reluctant to partake in any discussion. To put into perspective, the difficulties of obtaining quality interviews candidates with SOE participants, after several months of emails and phone calls to numerous organizations, this research managed to secure a total of two interviews with SOE managers. Moreover, once the interviews were undertaken, it was made apparent that the information provided during the interview was limited in scope. SOEs employees were vague and reluctant to disclose detailed information on how the SOE is managed or on cross-border M&As activity. Due to the lack of quality of the interviews from the SOE managers, their interviews were not used. Therefore, given the difficulty of obtaining sufficient quality data directly from SOEs; the researcher subsequently decided to find additional participants who could provide unbiased and disclose relevant information surrounding cross-border M&A activity undertaken by SOEs.



As a result, the profile for selecting elite interview candidates were based on China experts with industry-level knowledge on SOEs (in various sectors) that have conducted cross-border M&A. Such experts included China M&A consultants, M&A analysts, M&A advisories, and M&A brokers. It took several years of building trust and tenacious cultivation of relationships to obtain interviews with these participants. Akin to the Chinese business environment, *guanxi* and trust had to be established before any information could be disclosed. Once a relationship was developed between the researcher and interview participant, the participants would often make further introductions to other relevant interview participants and so forth. Due to the establishment of trust, interview participants were willing to speak openly, honestly and in-depth on the nature of the Chinese institution, how SOEs are commanded, the rationale for the cross-border M&As, and investment motivations.

This research has chosen to use independent elite individuals that have considerable experience working alongside SOEs and on cross-border M&As. The principle advantage of conducting elite interviews is that these industry elites are able to provide information not recorded anywhere else (Richards, 1996). Therefore interviewing elites offers a unique perspective on the motivations for cross-border M&A by SOEs. Specifically, offering insight and a dimension that would be external to the SOEs. The final sample of interview participants used in this research are entirely independent and are not connected to the state, while also, simultaneously possessing in-depth experience and knowledge on SOEs' cross-border M&As. It is therefore expected that the responses will have no underlining bias towards SOEs or subjectivism towards the central government. This will subsequently increase research validity and ensure that answers will be an honest and accurate reflection of an independent perspective on the subject matter and the most reliable source of information.

The elite participants selected for this research are all senior China experts that were either involved with the SOEs directly or have previously dealt with SOEs. The selected interview participants are high calibre, well experienced, and respected individuals within their fields. Participants range from a minimum of 5 years to 20 years China experience, with all holding senior positions within well-established multinational organizations. The participants are all very familiar with the Chinese

business environment, SOE operations, and have extensive knowledge of the cross-border M&A process. Moreover, many have previously been hired by SOEs to advise, consult, and analyze a number of cross-border M&A projects. The SOEs covered in this research are high-profile enterprises with a strong domestic and international presence within their respective industries. The SOEs selected are managed by SASAC and are viewed as national champions by the central government. An overview of the profiles of the participants and involved SOEs can be observed in Table 4.2. As per Table 4.2, the discussed SOEs broadly cover all key strategic industries including; natural resources, finance, technology, and manufacturing. This, therefore, allows the research to attain a complete picture of the motivations for cross-border M&A by an SOE without the interference of industry biases.

Nonetheless, though elite interviews have their benefits, they also do have their limitations. In this case, this research itself is based on SOEs and the cross-border M&A process. However, the interviews to be conducted are not directly involved with the SOEs, and thus the data collected will be based on the accounts of elite individuals whom are external to the SOEs. Therefore the researcher needs to be aware of the drawbacks of using such candidates. Limitations identified by Tansey (2007) include, elites misrepresenting their own position within the greater organization e.g. inflating or underrepresenting their role in the M&A process. In addition to giving accounts based on hearsay as opposed to first-hand experiences; and confusing different memories/experiences (Aberbach & Rockman, 2002). In such scenarios it would greatly question the reliability of their statements and the data collected. Therefore the interviewer must always be aware to stringently vet/cross-check the information the elite interviewees are supplying before reaching any such conclusions with the supplied data.

Participants were initially briefed through email regarding what that the research would involve along with an overview of the purpose of the study. Participants were also instructed that the interviews would be voice recorded with their consent with the interview being used solely for undertaking the research in this thesis (see section 4.4.4 – 4.4.6). If participants were willing, follow up interviews were also conducted. The interviews were conducted between 2016 – 2018 and were either held in person

face-to-face, over Skype, or over the telephone. A total of 32 interviews were conducted with 21 different interview participants, with a total of 11 follow up interviews. From the interviews, 26 different national level SOEs were covered. The interviews length ranged from between 35 – 120 minutes.

#### **4.4.4 The Chatham House Rule**

In order to obtain the most open and honest information from the interview participants, this research followed “*Chatham House Rule*.” The purpose of the Chatham House Rule as defined by Chatham House (2018) to:

*“providing anonymity to speakers and to encourage openness and the sharing of information. It is now used throughout the world as an aid to free discussion.”*

Established in 1927, there is only one Chatham House Rule, which is: to use any information received freely; however, the identity or the affiliation of the speaker or any of the participants cannot be revealed (Chatham House, 2018). By assuring the research participants of this rule, participants can speak openly, express their honest views, and thus encouraging free discussion on the subject matter (Guest et al., 2006). As a result, participants will feel more at ease knowing there will not be any possible negative consequence as a result of the information that they provided for this research. Examples of such consequences include but would not be limited to; dismissal, damage to reputation, and possible lawsuits (Michael et al., 2007).

The use of the Chatham House rule was essential in securing interviews with the research participants. Most of these participants work closely in SOE related affairs, and some work alongside the central government agencies. The close affiliation with disclosing sensitive/classified information and the subsequent possible repercussions meant participants did not feel comfortable providing an interview unless complete anonymity was guaranteed.

Table 4.2. Profile of interview participants in this research

Participant	Role	Involved SOEs*	SOE industry	Gender	Years in industry	Location
A1	M&A consultant	CCCC	Natural resources	Male	8	Singapore
G1	M&A advisory	ChemChina	Natural resources	Male	8	Beijing
H1	M&A consultant	ChemChina	Natural resources, Technology	Male	18	Hong Kong
H2	M&A consultant	COSCO, COFCO, AVIC	Natural resources, Manufacturing	Male	9	Hong Kong
J1	M&A advisory	Anonymous	Technology	Male	5	Hong Kong
J2	M&A consultant	State Grid of China	Natural resources, Technology	Male	5	Geneva
J3	M&A analyst	Anonymous	Natural resources	Female	9	London
J4	M&A brokerage	Anonymous	Manufacturing	Male	20	Shanghai
K1	M&A brokerage	COFCO, China Baosteel Group	Natural resources, Manufacturing	Male	9	Shanghai
K2	M&A consultant	China Telecom	Technology	Male	8	Beijing
L1	M&A consultant	Anonymous	Natural resources, Technology	Male	10	Shanghai
M1	M&A consultant	COSCO, COFCO, SINOCHART, Hesteel, Baogang	Natural resources, Manufacturing	Male	10	Shanghai
M2	M&A advisory	Anonymous	Finance	Male	5	Santiago
M3	M&A analyst	ICBC	Finance	Female	6	Beijing
M4	M&A advisory	Anonymous	Finance	Female	5	New York
N1	M&A consultant	Anonymous	Natural resources	Female	5	Beijing
P1	M&A consultant	China Baosteel Group	Manufacturing	Male	12	Santiago
R1	M&A advisory	CCCC	Natural resources	Male	10	Singapore
T1	M&A consultant	Anonymous	Natural resources	Female	15	Geneva
T2	M&A analyst	Anonymous	Natural resources	Male	5	London
V1	M&A advisory	State Grid of China, General Water of China	Natural resources	Male	9	London
X1*	M&A manager in SOE	Not used	Finance	Female	8	Beijing
R2*	M&A manager in SOE	Not used	Natural Resources	Male	10	Shanghai

Constructed by the author. Notes: I. Listed SOEs are based on those participants who have granted consent for disclosure only. II. Interviews from Participants X1 and R2 were not used due to the lack of quality in obtained data

#### **4.4.5 Interview consent**

In seeking interview participants to partake in this research, potential candidates were emailed an interview invitation which included a detailed synopsis on the purpose of the research project (see Appendix 2.1). Participants that were interested in being interviewed were then sent additional information via email, and a suitable interview time was scheduled (see Appendix 2.2). At the time of the interview, the researcher re-summarized the purpose of the research encouraging open dialogue and allowing for questions to be raised by the participant to be answered by the researcher. Prior to the interview commencing, the researcher reminded the participants that the interview would be audio-recorded and asked whether the participants were still comfortable with this. The audio recording was not turned on until participants gave their consent. If participants were happy for the interview to be recorded, the researcher also mentioned that they could request the audio recording to be stopped at any point during the interview.

Face-to-face interviews were recorded using a dictaphone that was placed in between the researcher and the participant. Over the telephone interviews were recorded using a mobile recording application. Before the recording, participants were reminded that the interview would follow the Chatham House Rules (section 4.4.4) and were asked if they consent to the research using any quotations given during the interview. Any such quotations would be anonymous. All participants who agreed to partake in the research were asked to read and sign the consent form (see appendix 2.3). All participants were emailed a signed copy of the consent form for their personal records. All consent forms were kept in a locked filing cabinet. All recordings of the interviews were kept in a password locked folder on the researcher's password locked computer.

#### **4.4.6 Transcription**

Transcription of interviews is necessary to present the interview data in a format that facilitates analysis. The researcher completed the transcription of the interviews. This decision was made to ensure the consistency in the quality and content of the transcripts. Moreover, as a result of the researcher carrying out the transcription

process, it allowed the researcher to be re-familiarized with all interview content, which proved hugely beneficial during the data analysis process.

The transcription employed Mergenthaler & Stinson (1992: 129-130) seven principles of standardization. These set of standardization rules involve:

1. *Preserve the morphologic naturalness of transcription.* Keep word forms, the form of commentaries, and the use of punctuation as close as possible to speech presentation and consistent with what is typically acceptable in written text.
2. *Preserve the naturalness of the transcript structure.* Keep text clearly structured by speech markers (i.e., like printed versions of plays or movie scripts).
3. *The transcript should be an exact reproduction.* Generate a verbatim account. Do not prematurely reduce text.
4. *The transcription rules should be universal.* Make transcripts suitable for both human/researcher and computer use.
5. *The transcription rules should be complete.* Transcribers should require only these rules to prepare transcripts. Everyday language competence rather than specific knowledge (e.g., linguistic theories) should be required.
6. *The transcription rules should be independent.* Transcription standards should be independent of transcribers as well as understandable and applicable by researchers or third parties.
7. *The transcription rules should be intellectually elegant.* Keep rules limited in number, simple, and easy to learn

By following these rules, it firstly allowed all transcripts to be in the same format which assisted in the analytical process. Moreover, the rules of standardization also permitted the use of participants' slang, pauses, emotions to be conveyed in the transcripts (see Appendix 2.4 for sample transcript). Resultantly, this allowed a true reflection of representation in the participants' views and thus minimized any possible misrepresentation (McLeilan et al., 2003). Post-transcription, each finished transcript was checked against the relevant original recording to guarantee the quality and accuracy of the transcripts.

## **4.5 Data Analysis**

### **4.5.1 Computer-assisted analysis**

In order to manage the large volume of data (including the transcripts, comparisons of interviews, excerpts, and systematic data analysis) computer software specifically designed for qualitative research was used. Interviews were firstly transcribed using Microsoft Word, and the primary data was then uploaded onto the online qualitative research platform Dedoose (<https://www.dedoose.com>). Dedoose was used to assist with the analytical process by allowing the researcher to store, organize, and explore the raw data jointly through in-built functions. From here, the researcher was then able to analyze the contents of the data to find categories and key themes using the analytical tools. Subsequently, allowing for the generation of a theory in a systematic methodological fashion.

### **4.5.2 Coding process for grounded theory data analysis**

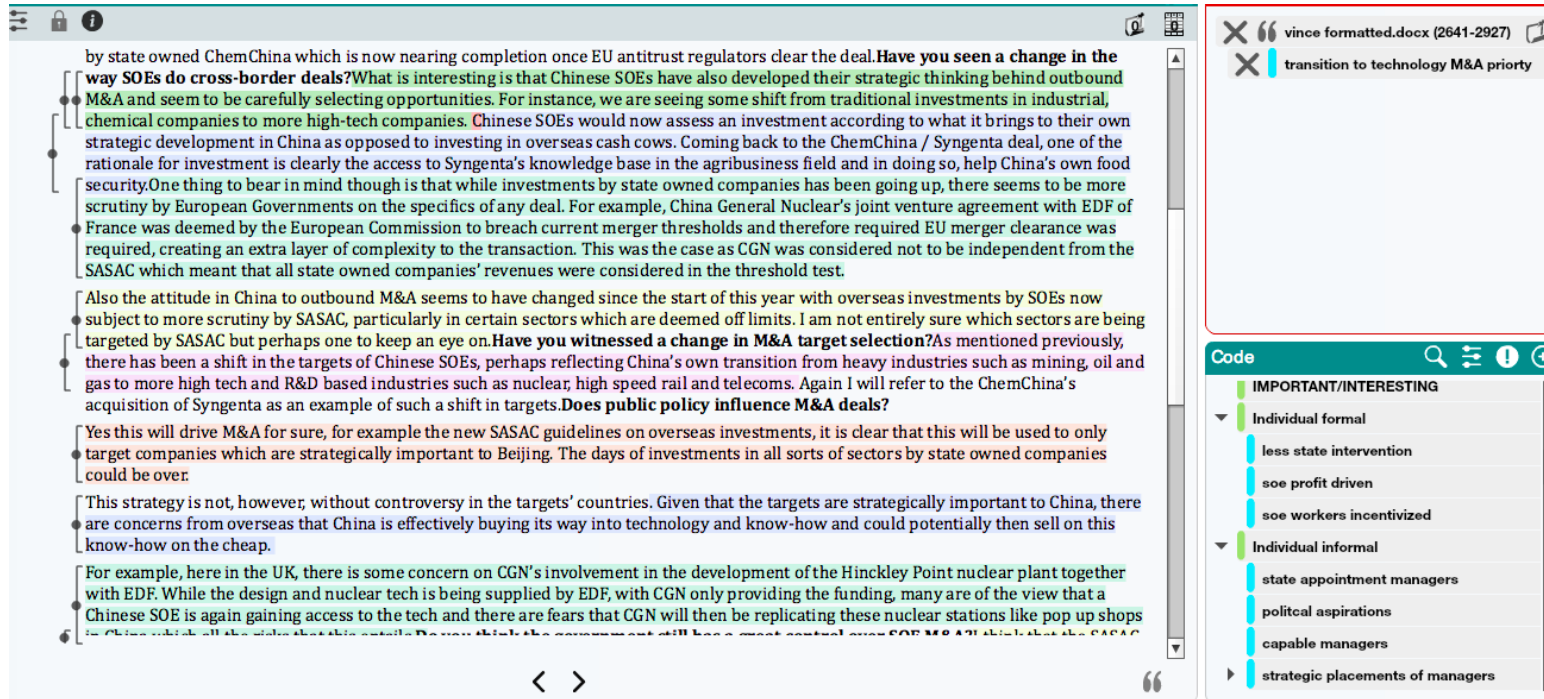
Following the grounded theory strategy, coding the data is the first crucial stage of the analytical process. The term coding in grounded theory is the process of defining the data. In grounded theory, the relationship between the data and theory is a conceptual code (Strauss & Corbin, 1994). The coding stage in grounded theory is critical as it provides the fundamental link between the data collection process, and the initial stages of explaining theoretical categories that may be developed (Charmaz & Belgrave, 2007). Traditionally in grounded theory, there are two distinct stages of coding. Firstly the substantive coding phase, which involves open and selective coding once a core category emerges (Holton, 2010). Secondly, a theoretical coding stage in which the core categories are theoretically integrated and a theory is formulated (Holton, 2007). Both stages involve the data being compared continuously, while also being theoretically sampled to saturate core concepts, collect new data, and assist in refining the categories (Charmaz & Belgrave, 2007)

#### 4.5.2.1 Open coding

Line-by-line open coding is used by the researcher to begin the preliminary coding process. To minimize the possibility of missing an important coding category, researchers need to ask themselves "what is this data a study of?" "what is happening in the data?" "what is the main concern?" (Glaser & Holton, 2004). Each line of the data is examined to tentatively identify a code, actions, or concepts that are occurring (Holton, 2010). The data is segmented to allocate units of meaning. This allows the analysis and theory to be built from the ground up and allows the researcher to break the data into categories to begin to see the different processes (Charmaz & Belgrave, 2007). Upon completing the line-by-line coding stage, the researcher would have produced a rich body of codes without leaving anything out, as well as refraining from imputing any personal motives into the theory being built (Glaser & Holton, 2004). From Figure 4.1 and Table 4.3, an example of the line-by-line open coding process can be observed. In the first example from Table 4.3 initial codes such as "*past failures*," "*more careful*," "*continuing with M&A*," "*continue with caution*," and "*more experienced*" were the preliminary codes generated from the data extracted from participant L1.



Figure 4.1. An example of the line-by-line coding process using Dedoose



Note: Author's own work for this research

Table 4.3. An example of exploration from data to code generation

Participant	Data Extracts	Initial codes	Selective codes	Category
L1	"Yes, I think the failures, I think they will be very careful but I still think they will go on and continue to do this but they will be more cautious, and now they are more experienced."	"past failures" "more careful" "continuing with M&A" "continue with caution" "more experienced"	"learning from past experiences" "continuing M&A more cautiously"	Selective M&A based on state plans
	"maybe before China focused on oil and natural resources, but now China will focus on high technology especially on AI, if those Chinese companies buy these high technology companies, they will be able to use these technology in the China market, and they profit from that. China is shifting from natural resources, before China needed more iron ore and coal, but now we don't need as much and now as a country we are changing."	"past experiences" "past natural resources driven" "current focus on technology" "want to acquire high tech" "profit in China market" "shift away from natural resources" "don't need as much natural resources" "evolving country"	"greater experience in M&A" "transitioning from natural resources to technology"	
H1	"There was a time a couple of years back China felt like they didn't care so much, as long as they go out there and buy resources, but what happened, particularly in Africa, they lost a lot of money because the deals were not so strategic because sometimes they were just scattershot."	"past experiences" "lack in care" "just want to buy resources" "loss of money" "not strategic deals" "random M&A"	"previously inexperienced in M&A" "learning from past" "greater thought in current deals"	Selective M&A based on state plans
	"the government was not happy about the approach of how deals were done so nowadays it is much more targeted. In some ways now when Trump blocks deals, there's actually some justice to that because in China deals are much more now vetted. If they are going after an American company, there is a strategic reason for this"	"negative reputation" "more targeted M&A" "justice in deal blocking" "better vetting in deals" "strategic reason behind deals"	"more targeted M&A with a strategic purpose"	

*Constructed by the author, based on the author's own work for this research*

#### **4.5.2.2 Constant comparison and theoretical sampling**

Charmaz (2006) explains that the constant comparison process is an iterative operation wherein data is compared with other data - the data is compared with the code - the code is compared with other codes - the codes are then compared to the category - the category is compared to other categories - and then the category is compared with the concept. The constant comparison process is required to move from open coding to selective coding because it is through constant comparison that the researcher can establish which concepts are emerging (Holton, 2010). The comparison allows common codes to be refined and formed into categories that represent more substantial portions of data (Charmaz, 2006). Regular reviewing of the transcripts also encourages new interpretations of narratives, new codes, and a deeper understanding of the participants' beliefs, particularly attitudes towards the role of the Chinese institution in relation to cross-border M&As.

As per Figure 4.2, through the process of constant comparison, a core category will begin to emerge of which its primary function is to become integrated as part of the underlying theory (Holton, 2010). In appearing to explain the phenomenon, the core category will then become the root for further data collection and new coding efforts (Charmaz & Belgrave, 2007). The comparison process occurs in every stage of the methodology to ensure that the theory generated remains grounded in the data (Charmaz, 2006). In parallel to the constant comparison is the process of theoretical sampling. This involves facilitation on what data needs to be collected and where to collect this data to continue developing the emerging theory. As the collection of data is confined to the parameters of the emerging theory, the researcher can only discover what to collect next based on the initial coded data (Strauss & Corbin, 1997). This means the researcher needs to identify gaps in the data and emerging theory to draw guidance on where and how to collect additional data. In this research, upon initial coding of the existing data, theoretical sampling was used to identify areas where additional data sources were needed to be collected to facilitate the emerging theory.

Figure 4.2. An example of the comparison of excerpts within the same emerging coded category using Dedoose. Upon comparison, some of these excerpts have been recorded.

Media TI...	Excerpt Range: 1113-1244	Created: 06/19/2018	User: Kim_BW	
hemChina and Syngenta the largest acquisition ever made by China, it was a national priority that this transaction would take place				not enough natural re...
Medi...	Excerpt Range: 2695-4268	Created: 06/20/2018	User: Kim_BW	
yes I think it is. If you look at the energy security side of things, if you look at China, they became a net importer of oil in the mid 90s, then they became the biggest importer of oil I think in the late 2000s and I think they are the biggest importer of all of energy as well in general so they are very reliant on energy especially oil, they import I think about 9 million barrels a day of oil which is about nearly about 10% of all oil produced so it's a big chunk of oil. I think they see that as quite insecure obviously a lot of stuff runs on oil including military stuff as well. Its important for the economy so for that reason that was what led to the going out strategy of SOEs in the energy sector. That go going out strategy mainly involved whether possibly they could was buying equity rights in oil. So that was buying the actual oil in the ground itself and then mining it themselves. So yes they have definitely been expanding that. It's still a big part of their strategy, going out and buying equity shares in oil. I think now they get most of their oil in Saudi Arabia where they don't have any equity shares but they buy a lot of oil off the market, then Angola they get a lot of oil from there and Russia as well. Its all apart of diversify, so to have energy security they also have diversified away from oil that comes via ship from Saudi, so they have also bough from Russia which comes via pipeline which is considered more secure as well. So yes one of the big things comes from buying energy and from where I'm concerned it's still a big part.				hard power not enough natural re...
Media ...	Excerpt Range: 359-391	Created: 06/21/2018	User: Kim_BW	
so lots of new resources oversea				not enough natural re...
Media...	Excerpt Range: 265-444	Created: 06/21/2018	User: Kim_BW	
They are involved a lot in energy mining especially in Peru and Brazil. They are the top markets they are engaging in. You have seen a lot of government involvement in Venezuela.				not enough natural re...
Media...	Excerpt Range: 653-726	Created: 06/21/2018	User: Kim_BW	
I would say energy, mining and a small presence in agricultural business				not enough natural re...
Media...	Excerpt Range: 9590-9809	Created: 06/21/2018	User: Kim_BW	
Are these targets private or owned by the government?These companies are private, at least in Chile the government in not willing to sell asset. It's easier for them to buy than to try buy something from the government.				not enough natural re... seeking new resources
Me...	Excerpt Range: 14285-14341	Created: 06/22/2018	User: Kim_BW	
On the resource side, its self-explanatory they need it.				not enough natural re...
Media...	Excerpt Range: 4415-5431	Created: 06/22/2018	User: Kim_BW	
Natural resources historically. If you look at that industry, the government has a lack of this, the government therefore has an incentive to create for example food security. That's a classic one. But then, I think in some way for the moment that has peaked a little bit, in the sense that a couple of year ago, the government was pushing for acquiring companies from abroad when natural resources were really highly priced so when you go back to 2010 – 2012 when prices of natural resources for example oil, when oil was skyrocketing they were very concerned they wont be able to acquiring enough resources in the open market. Now that these prices have come down I think they have scaled back the acquisitions further because they have also realized that these foreign acquisitions didn't work out as well. For example growing different crops in Africa, I know it didn't work out as well very they have tried to do the greenfield options rather than acquiring a professional company abroad that they leave alone.				not enough natural re... more selective M&A china lack of internati...

*Note: Author's own work for this research*

#### 4.5.2.3 Selective coding

Upon identification of core codes, any subsequent data collection and coding is refined to what is relevant to the emerging theory (Holton, 2010). The core codes are then used to sift through large volumes of data. This is known as selective coding (Charmaz & Belgrave, 2007). During this process, all developed themes, categories and codes are re-examined to identify any similarities and to avoid any overlapping or repetition. By refining the coding, only the core codes are used to categorize the rest of the data (Holton, 2010). Therefore, any future data is categorized more accurately.

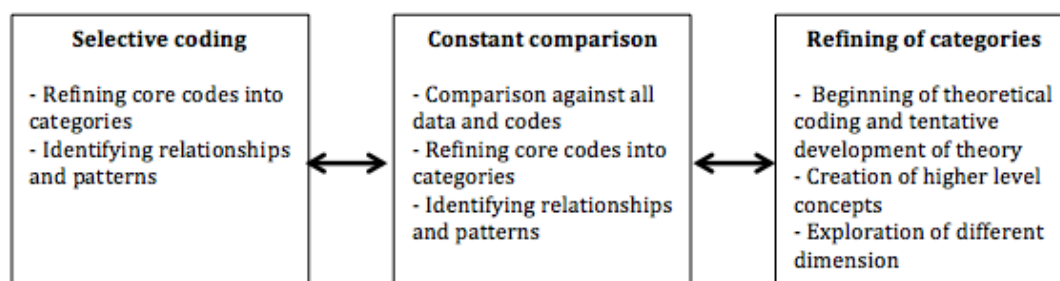
As per Figure 4.3, the purpose of selective coding is to build categories that can clarify the data as the data is being examined. The categories created must also allow any gaps within the data to be identified (Charmaz & Belgrave, 2007). Selective coding also means that the selected codes are now used as categories and are now part of the developing theory. By choosing specific categories to be used, this indicates that the chosen codes have major significance in explaining processes within the data (Charmaz & Belgrave, 2007). The selective data collection process continues until the researcher believes that the core category is sufficiently integrated into the emerging theory.

In this research, in conducting selective coding, all transcripts were revisited and compared against early codes. These early codes, in turn, were also compared against newly collected data to check for analytical integrity and the ability to deduce meaning. It also involved the clarification of any new codes against the logic of the emerging theory and thereby established new boundaries. Also, as the theory developed, categories were refined and combined, while at the same time, ensuring that all significant concepts were represented by the categories.

From Table 4.3 and Table 4.4, examples of the selective coding process can be observed. In the first example from Table 4.3, from the excerpt given by participant L1, it can be seen that selective codes such as “*learning from past experiences*,” and “*continuing M&A more cautiously*” were refined from the initial open codes of “*past*

*failures,*” “*more careful,*” “*continuing with M&A,*” “*continue with caution,*” and “*more experienced.*” As a result, new interviews and data were collected, coded, and explored based on these selective codes.

Figure 4.3. Development of core codes/categories



Source: Constructed by the author, based on Charmaz & Belgrave (2007) and Holton (2010)

#### 4.5.2.4 Theoretical coding

Theoretical coding is used to determine relationships among the individual categories/concepts to achieve an integrated conceptual framework (Charmaz, 2006). Theoretical coding conceptualizes how the codes can be incorporated into the theory. Thus this requires intensive comparison of data to validate the reliability of the codes that represent the accounts of the participants (Glaser & Holton, 2004). In theoretical coding, the researcher aims to develop a higher level of understanding through refining and merging concepts into theoretical categories that can explain the research phenomenon (Charmaz, 2006). By the end of the theoretical coding process, the researcher would have developed a theoretical model that can be applied to the subject matter. Table 4.4 is an illustrative example of how this research developed theoretical codes based on the data raw obtained from the research participants. In this example, the coding is continuously refined during the open coding and selective coding stages - until the theoretical code "*influence of state agencies*" is reached.

Table 4.4. An example of the grounded theory coding process

	<b>Data extract</b>	<b>Open coding</b>	<b>Selective coding</b>	<b>Theoretical coding</b>
1	“I think that the SASAC will now have a larger say in the decision-making process of SOEs. While I expect the day-to-day M&A process to still be run independently by the SOE team, the final stage approval will be required by the government.”	SASAC control, lack of decision making by SOE; M&A final approval by state	SOE lack of autonomy; Greater involvement of state; M&A harder process	Influence of state agencies
2	“Now you need so many different approvals NDRC, SAFE, SAS approval just to get to the table to say I want to transact on something. Whereas in 2012 so many purchases made, like hotels and these weren't necessarily good investments, but they came from SOE money”	Various state agencies; onerous processes; past experiences; M&A easier before		
3	“When Xi Jinping came in, he went into the media industry, and that's when people started getting arrested, then he went into the rail industry, then he went into oil and gas and this industry has a long-standing relationship with the security industry. He cleaned these industries out. Then he went into the financial sector and reorganized BoC and ICBC and did this to put his own guys in. He went SOE by SOE, this had a huge effect on outbound investment. The autonomy totally dropped.”	New leader; industry crackdown; restructuring; Allies; outbound M&A harder; reduced autonomy		

*Constructed by the author, based on the author's own work for this research*

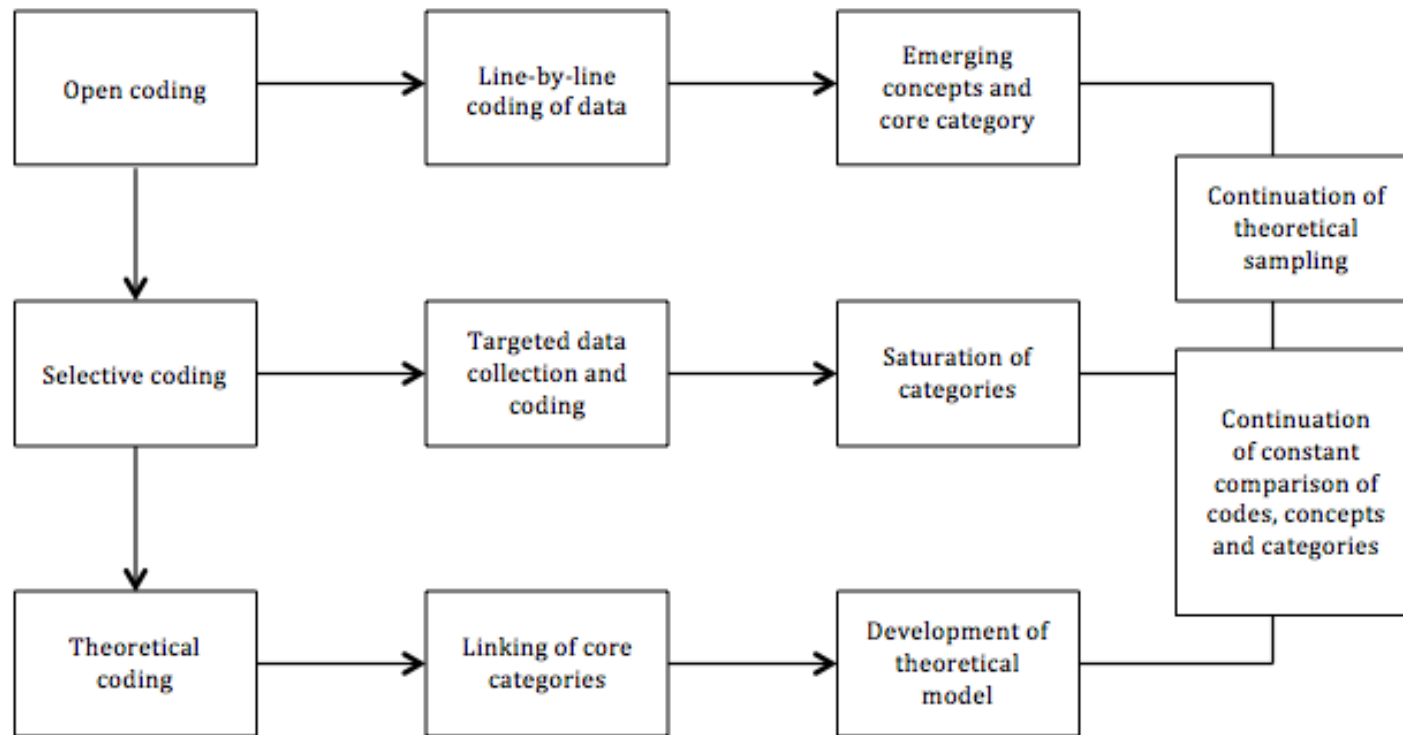
### 4.5.3 Theoretical Saturation

When the research no longer needs to collect data, this is when theoretical saturation is reached (Guest et al., 2006). Constant comparison between the data, the properties, and dimension of each category/concept is carried until no new properties or dimensions emerge – at this point saturation is met, and the category has now become theoretically saturated (Strauss & Corbin, 1994). Theoretical saturation is understood as a feature of grounded theory that signifies completion.

In this study, theoretical sampling was used to collect specific data relevant to the newly emerged concepts. Constant comparison analysis was carried out to determine the integrity and dimensions of the collected data. Theoretical sampling and the collection of data were conducted until the analysis ceased to find any further new insights and thus no new codes were generated. Theoretical coding was used to define categories while core categories were compared, contrasted, and revised until they were able to explain the generated theory sufficiently. For example, as per Table 4.5, the theoretical category “*influence of state agencies*” was elicited from the coding stages. All initial data was revisited to determine any further properties that might have emerged in this given category. And, interview participants were asked for a follow-up interview to explore the dynamics of any new categories in more depth. It was agreed by all participants that the state agencies are instrumental in the cross-border M&A process undertaken by SOEs. Thus, in this specific case, no new interviews were required. Table 4.5 illustrates the theoretical categories and subcategories generated by this research, and Figure 4.4 is a summary of the grounded theory process.



Figure 4.4. The grounded theory process



Source: Constructed by the author based on Strauss & Corbin (1994); Charmaz (2006) and Holton (2010)

Table 4.5 (1/2). Outline of core categories, definitions, and examples of questions asked

Interaction	Category	Definition	Examples of questions asked
Informal institution	Rejuvenation of China	Identifying the influence of the historical values and sentiments of national pride on formally encouraging M&A to revive China to its former glory	“Where does the pride in China stem from?” “How significant is the century of humiliation to the Chinese?” “Is China trying to revive its nation?”
	Greater international influence	Determining whether China is seeking a more significant international presence i.e., an indication of national revival	“Have SOEs extended their global footprint?” “Is having global influence important to China?” “Can <i>mianzi</i> motivate cross-border M&A?”
	Resource security and Self-sufficiency	Issues concerning the importance of why specific resources are acquired. Determining the extent of China's desires to be less dependent on the West for key resources, e.g., technology, minerals, grains further an indication of national revival	“Why are these deals so important to China?” “Do you think China is trying to more self-sufficient and relying less on imports?” “Is independence important to China?” “How has the recent trade war with the US affected China?”
Institutionalization of informal institution into formal institution	Government-led M&A	Establishing the degree, the state has on influencing the behavior of SOEs to encourage cross-border M&A	“The idea of cross-border M&A, where does it come from?” “How connected is the state to SOEs?”
	Influence of state agencies	Determining the impact of the state on cross-border M&A. Issues concerning M&A due to roles of state agencies.	“To what degree are state agencies involved in the M&A process?” “To what extent has the capital control restrictions affected overseas M&A?”
	Selective M&A agenda based on state plans	Issues regarding how M&A is influenced by national state plans. E.g., more specific and targeted with a purpose.	“Has SOEs become more experienced in overseas M&A?” “Are M&As more selective?”

*Constructed by the author, based on the author's own work for this research*

Table 4.5 continued (2/2). Outline of core categories, definitions, and examples of questions asked

Interaction	Category	Definition	Examples of questions asked
Between the national level and organizational level	SOE obligation to fulfill state plans; SOE level of autonomy	Establishing how closely must SOEs follow the state plans and the degree of autonomy that SOEs have in cross-border M&A.	“How much freedom do SOEs have in the M&A process?” “Who selects the M&A target?”
	Profit vs. social driven deals	Determining how social and profit responsibilities are weighted in SOEs given their state ownership.	“Do SOEs have a responsibility to the people of China?” “To what degree are deals by SOEs driven by profit?” “What is objective behind the deals that SOEs have made?”
	SOE paradox: Undeniable influence yet challenging to engage	Identifying the consensus on how SOEs are perceived within their respective industries as a result of state influence.	“What was your experience on working with SOEs?” “Are SOEs respected in your field?” “What is the reputation of SOEs?”
Between the national level and individual level	Strategic placement of managers	Indicating how top-level SOEs positions are made and the degree they are under political influence when it comes to M&As.	“How are SOE leaders chosen?” “Why is it important for the state to place SOE managers?” “Do SOE managers have to follow the directives of the state?”
	Cross-border M&A for career leverage	Highlighting the relationship between conducting an M&A and rewards given to SOE leaders concerning their political careers.	“Post successful M&A, what will happen to the SOE manager?” “Will SOE managers act in best interest of SOE?”

*Constructed by the author, based on the author's own work for this research*

## **4.6 Issues surrounding qualitative research**

One of the biggest criticisms surrounding qualitative research is the lack of scientific rigor. For this reason, there are considerable discussions on the principles of validity and reliability using a qualitative interpretivist approach. Since qualitative research is regarded as a mode of seeking more profound understanding, while also allowing a focus on a particular phenomenon rather than testing and refuting theories; qualitative research studies are often scrutinized about the quality and robustness of the results (Pandey & Patnaik, 2014). However, it is argued that validity and reliability are applicable to qualitative research when taking in account the differing features and goals of the research (Seale, 1999). The measures taken to achieve the reliability and validity of this research will be outlined below.

### **4.6.1 Internal validity**

This research used triangulation to improve construct and internal validity. Internal validity refers to the degree to which the researcher can conclude that the observed relationship is causal (Golafshani, 2003). That is, concluding with confidence that the detected cause of the observed phenomenon is in fact true. The concept of triangulation indicates that a single source can never fully explain a phenomenon. Therefore it needs two or more sources of data for the conclusion to be more credible (Pandey & Patnaik, 2014). Research validity can be strengthened by following a triangulation approach in crosschecking sources of information from multiple origins (Thurmond, 2001). Proposed ways to improve internal validity in qualitative research includes data triangulation (Burke, 1997). This means using multiple data sources in a single research study, for example, using multiple interviews thus providing multiple data sources. Moreover over data triangulation involves collecting data at different points in time, different locations, in addition to different candidates.

In the case of data triangulation, this research adopted a strategy to ensure that interviews were conducted with a varied range of M&A experts including; M&A consultants, M&A brokers, M&A analysts, and M&A advisors - all of which are

based in various international geographies. This firstly allowed the researcher to check the acquired information from different data sources to determine general agreement. Moreover, the benefit of using a wide range of data sources is that each data source can provide additional information from a different perspective therefore resulting in a more complete understanding of the phenomenon. Lastly, in interviewing candidates at different periods of time in addition to different geographies, the gathering of rich information from multiple different sources facilitates a far superior understanding of the subject matter than if only one data source was used, thus vastly improving the internal validity of the results.

Concerning construct validity, semi-structured interview questions were purposefully thought out to guide the researcher into obtaining the best possible responses. The questions were also prepared to ensure that all key topics were covered during the interviews. These questions were developed from studying a range of sources and were crosschecked. This includes journals, company reports, newspaper and magazine articles. By developing these questions from a variety of sources, it allowed the researcher to crosscheck the validity of these questions from various angles thereby giving strength and integrity to these questions before use.

From the perspective of the grounded theory process, triangulation was also applied to this research consistently throughout the data collection process. Specifically, triangulation was applied through the use of theoretical sampling and constant comparison. New participants were asked questioned based on emerging categories and concepts that emerged from previous interviews. Information from transcripts was routinely compared to previous interviews, codes, categories, and concepts. Moreover, through the participants' introduction to new interview candidates, this provided the opportunity to validate different responses from participants within the same industry, differing seniority levels, and with varying years of work experience. This allowed the analysis of data that came from participants with different perspectives and levels of business authority. Finally, the constant comparison process of grounded theory meant adopting triangulation to compare the collected data against secondary external sources of data. The collected primary data were examined for similarities as well as contradictions to the secondary data, thus enabling an overall interpretation of the data to be developed before a final

conceptual framework is concluded.

#### **4.6.2 Reflexivity**

One potential threat to validity in research is researcher bias. That is, in qualitative research, researchers frequently find what they want to find, because qualitative research tends to be more open ended and less structured than quantitative research (Bryman & Bell, 2015). This in turn allows the researcher to undertake selective recording of the information, and interpretation of the data based on the personal views and perspective of the researcher.

In order to avoid researcher bias and ensure research rigor, reflexivity is a strategic process typically employed. This involves self-awareness and self-reflection by the researcher on any potential biases and predispositions. Through reflexivity, researcher can become more self-aware to monitor and attempt to control their biases (Burke, 1997). This involves an active of process of scrutiny, reflection, and interrogation of the data, as well as the researcher him/herself. Manson (1996:6) stated a reflexive researcher should:

*“constantly take stock of their actions and their role in the research process and subject these to the same critical scrutiny as the rest of their data.”*

Reflexive strategies used by this research include consciously taking steps back from the subject of this research and critically questioning the attained interpretations. Such self-reflection and questions asked to oneself included: “what do I know?” while at the same time questioning, “how do I know what I know?” – all while recognizing the potential limitations that this research may have been produced. These questions were asked throughout the planning of the research, data collection, and data analysis phases. Undertaking a reflexive process, permitted the attainment of research confidence with regards to how the knowledge was constructed throughout the research process. It also facilitated research rigor and allowed accountability for factors that could influence the planning, conduction/undertaking, and ultimately the conclusion of this research.

Critical reflexive research is an essential process, in order to reflect on the knowledge produced by the research, in addition to questioning how knowledge has been generated (Guillemin & Gillam, 2004). Thus, it is important that the researcher is reflexive and aware of the potential influences on the obtained knowledge. That is, it is important to take a step back and take a critical look on the researcher's role in the research process (Burke, 1997). Ultimately, self-reflection and answering the key aforementioned questions is essential to improving the quality, validity, and rigor of the research (Guillemin & Gillam, 2004).

### **4.6.3 Reliability**

Reliability is considered the extent to which the results are consistent, and an accurate representation of the population under study (Morse et al., 2002). If the study can be reproduced again with the same results using the same methodology then it can be said that the research is reliable (Morse et al., 2002). Reliability of qualitative studies can be a challenging process. An interpretivist research project is often based on the collection of data from interviews wherein the research participants are giving accounts of real-life experiences, and it is down to the researcher to interpret these personal experiences. The biggest challenge faced in qualitative research, is overcoming the elements of information misinterpretation and researcher biases (Golafshani, 2003). To ensure the reliability of the results of this research, several techniques for enhancing the reliability of qualitative research were followed.

In the first instance, the research involved a well thought out and well documented methodological research process. The research questions and corresponding objectives have been made clear from the beginning. The methodology is explicit and well formulated. The data has been gathered transparently through consented participants that are well regarded in the Chinese M&A field. Lastly, the data analysis has followed the well-established grounded theory procedure, and has been thoroughly explored using sophisticated analytical tool 'Dedoose.' The systematic process adopted ensures that any errors in the methodology are minimized. This subsequently allows the data to be accurately collected and analyzed, thus giving the highest possibility of robust and reliable results (Pandey & Patnaik, 2014).

It is believed that given the same conditions and a similar situation, the same data and findings of this research can be obtained by a different researcher. However, it must be noted, that in the case of qualitative research and social sciences in general, it is significantly difficult to recreate such similar research conditions (Golafshani, 2003). Specifically, to this study, the interview participants acquired for this research are the direct result of years of tenacious relationship cultivation and trust building. Thus, it would be unlikely that these participants would speak as openly or, feel the same degree of comfort, required to disclose the detailed information that underpins this research. Therefore, given that the theory generated in this research is fundamentally based on trust (which allowed such rich and full-bodied information to be provided by the participants); it cannot be guaranteed that another researcher would obtain the same outcome.

The second measure employed to enhance reliability is to ensure that the acquired results are as unbiased as possible. This required the researcher to adopt a neutral stance when analyzing the collected data. It is critical that the responses given by the participants directly shape the findings of the research, and are not influenced by researcher biases, or other interests (Pandey & Patnaik, 2014). Concerning this research avoiding any possible biases in the findings, it is believed that the use of interview participants are independent and not connected to the central government ensured the given responses had no underlying biases. Moreover, the trust established between the researcher and participants further assured the provided accounts were honest and accurate in reflecting their experiences, thus further safeguarding the reliability of this research.

## **4.7 Conclusion**

This chapter has outlined the research methodology that was used to attain the research questions and corresponding objectives of this research (as per section 4.1). Limited research has been conducted concerning the institutional theory in the China context and subsequent cross-border M&A by SOEs. This research, therefore, adopted an inductive grounded theory approach following an interpretivist epistemology. Primary data was collected using semi-structured interviews. A total



of 32 interviews were conducted with 21 elite China M&A industry experts (consultants, analysts, advisers, and brokers) each with direct experience working on SOE cross-border M&A deals. A total of 26 national level SOEs from the key industries (natural resources, manufacturing, technology, and finance) were covered. The industry experts all had between 5 – 20 years of experience in the Chinese business environment. The experts have also had exposure to the cross-border M&A process undertaken by SOEs. As these industry experts are independent of the SOEs and state, the research was therefore, able to collect data from impartial individuals. Resultantly, the responses had no underlining biases towards the SOEs or the central government. This subsequently increased research validity and ensured the answers were an honest and accurate reflection of the subject matter. Given the closed nature of SOEs and the volume of classified information on cross-border M&A deals, the interviews were conducted following the "*Chatham House Rule*." This meant participants were able to speak freely and openly with their anonymity guaranteed. Interviews were recorded with the consent and transcribed to begin the data analysis phase.

Data obtained from the interviews were analyzed using online qualitative research platform 'Dedoose.' The collected data was coded in stages following the grounded theory analytical process. Open coding was completed to tentatively identify codes that were able to explain concepts occurring in the data (for example: "*past failures*," "*more careful*," and "*more experienced*"). Through a constant comparison process (an iterative process of comparing data to codes – codes to categories, etc.), the dimensions of the data were made clear and early categories (such as "*selective M&A*") from the codes were made. Potential core categories emerged, which then became the root to further new data collection and new coding efforts (i.e., theoretical sampling). From here, selective coding was used to refine any newly collected data, based on the previously identified core codes (for example: "*learning from past experiences*," and "*continuing M&A more cautiously*"). All transcripts, codes, and categories were re-examined to check for integrity in meaning. Only the most analytical codes were used to categorize any new data and thus strengthening the emerging theory. The last phase of coding in the grounded theory process is theoretical coding. This was done to determine the relationship between the core categories (for example the theoretical category "selective M&A based on state

mandate" was generated from selective codes "*continuing M&A more cautiously*" and "*more targeted M&A with a strategic purpose*"). Categories were integrated into the theory thus developing a theoretical model able to explain the China-specific institutional M&A context (see Table 4.5). Theoretical saturation in this research was reached when any newly collected data was no longer able to produce any new concepts and when existing categories were not able to provide any new properties.

Concerning issues surrounding qualitative research, these include issues regarding validity and reliability. Construct and internal validity was guaranteed in this research by adopting various methods triangulation. This meant all questions asked and all responses given by the interview participants were cross-checked from multiple sources, including external secondary data sources. Moreover, interview transcripts, codes, categories, and concepts were compared continuously and checked for integrity and rigor throughout the analysis process, thus increasing internal validity. Reliability was encouraged in this process by conducting a well thought-out and documented research process. The grounded theory process itself, is a well-established systematic procedure that ensures errors were minimized. It is believed that the level of trust established by the researcher and elite interview participants ensured a collection of rich and full-bodied data. Moreover, by adopting a grounded theory approach, data was continually redefined and revised - as the data was being collected. This process allowed for opportunities of critical self-reflection as well as the avoidance of any possible biases in data interpretation. As a result, this process therefore permitted enhanced validity and reliability of this research.

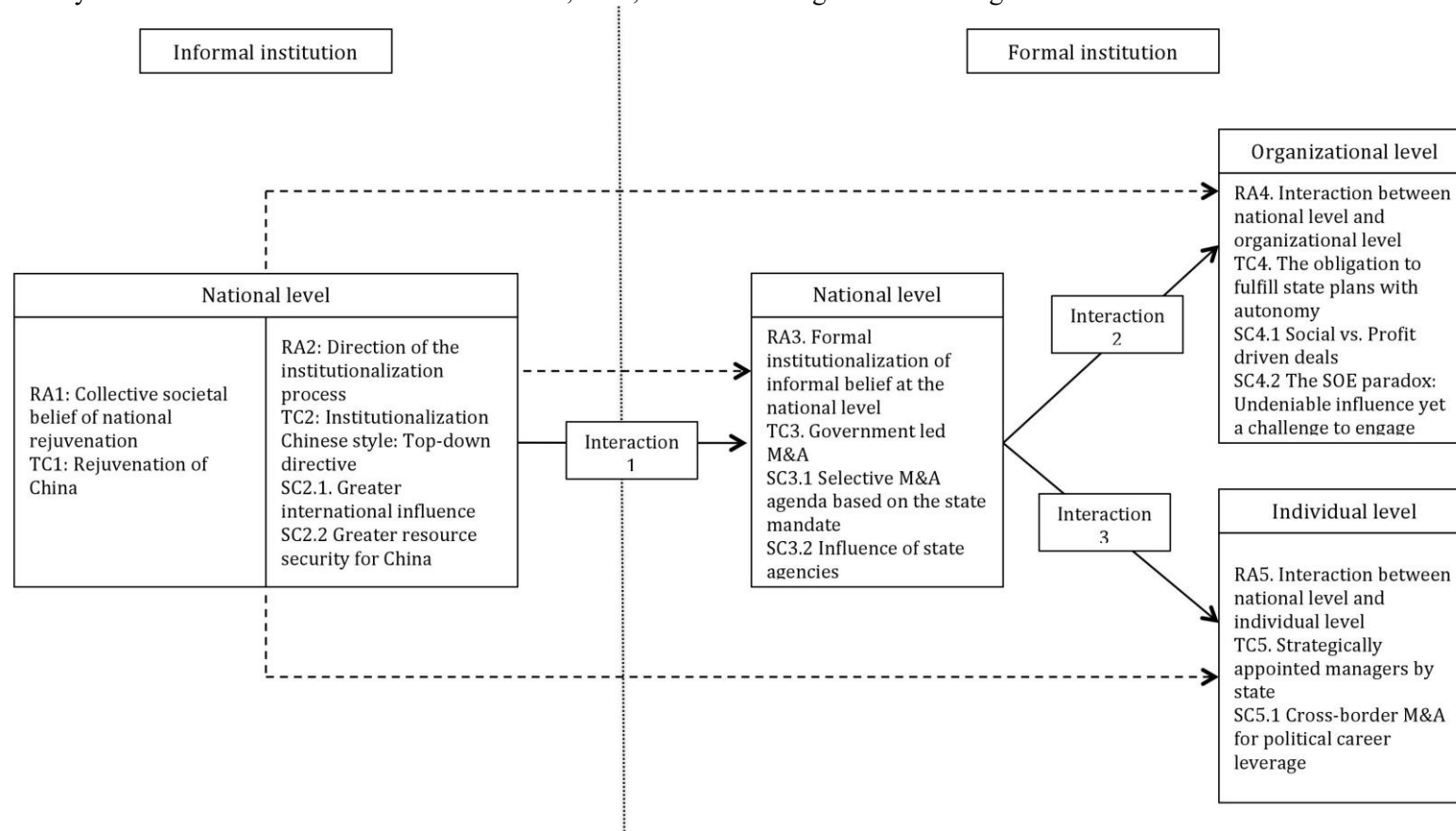
## **Chapter 5**

### **Findings**

## 5.1 Introduction

Upon using the grounded theory approach to code and analyze the obtained interviews, 5 key research areas were identified. This includes the influence of national rejuvenation; the direction of institutionalization; the formal institutionalization of the informal belief at the national level; the interaction between national level and organizational level; and the interaction between national level and individual level. From identifying the above research areas, the theoretical categories and categories were developed (Figure 5.1). Upon eliciting theoretical categories and subcategories, these have been used to develop, and have been integrated into the China-specific conceptual theoretical framework outlined in this chapter. This framework has been designed to explain the institutional dynamics between the formal and informal institutions in China at the national, organizational, and individual levels. Three clear distinctive interactions between the formal and informal institution can be observed in motivating cross-border mergers and acquisitions (M&As) undertaken by Chinese state-owned enterprises (SOEs). That is, firstly, the interaction of institutionalizing the informal belief of national rejuvenation into the formal institution at the national level. Next, the formal command (the beliefs of national rejuvenation) in a top-down directive from the state to the SOEs. And lastly, the formal directive from the state to the SOE leadership. These dynamic interactions are also presented in Figure 5.1 and will be introduced in this chapter, with further detailed discussion of these interactions in Chapter 6: Discussion.

Figure 5.1. Research areas, theoretical categories and corresponding key subcategories:  
The key institutional interactions between the State, SOE, and SOE manager in facilitating cross-border M&As



Note: Constructed by the author based on the grounded approach adopted by this research.

RA corresponds to research area; TC corresponds to theoretical category; SC corresponds to subcategory.

--> corresponds to informal institutional interaction; → corresponds to formal institutional interaction.

## 5.2 Key findings on research question 1

“What are the distinctive features of the institutionalization process in the China specific context?”

### 5.2.1 Research area 1: Collective belief of national rejuvenation at all levels of society

#### 5.2.1.1 Theoretical category 1: The rejuvenation of China

In exploring the effects of the informal institutional beliefs on the outcome of the formal institution, a number of key observations were made. Firstly, it was expressed that the lasting effects of certain Chinese historical events continued to influence Chinese psyche. For instance, participants expressed how past excellence, had an ongoing impact on Chinese pride. It was found that there is a common shared belief among the Chinese at all levels of society; a dream of rejuvenating the formerly great China.

*“...their rich history, well-documented achievements in science, technology, exploration...It's a clear well-documented history so the pride comes from that, who they were and who they think they should be in the world... they have always been pioneers in the world... they have defined civilization, medicine, science and technology, aviation. And today China is collectively working hard to continue that legacy and reclaim what was lost.”*

*(Participant M1, Shanghai, M&A consultant)*

Participants agreed on the lasting adverse effects of the century of humiliation, in particular, its impact on China's sense of pride. To the Chinese, this period in history remains deeply rooted in their outlook and continues to influence their often sceptical view of the West. It is connected to the concept of what the Chinese see as a loss of face to the West.

*"It is definitely is a painful point for them, it hurts the pride of the Chinese definitely. It hurts them to know that they were taken advantage of, the loss century of this and that... but I think the very concept of the century of humiliation is so Chinese, it's so ingrained in their concept of face. The world sees it as OK you slipped a bit in global trade... someone got the better of you but to the Chinese... it's so ingrained*

*into their face and pride that for them its humiliation but maybe the rest of the world doesn't see it that way."*

*(Participant J2, Geneva, M&A consultant)*

Linking this point to the objective of rejuvenating China, it was found that China's rich history created a sense of shared confidence among the Chinese. Specifically, that the rejuvenation of China was expected, and moreover, would be a return to the normal state of affairs – i.e., China once again being a global pioneer of science and technology in addition to being a political leader. In doing so, participants also believed that M&A would continue to play a critical role in restoring China's past glory. Participants demonstrated a shared belief that China is unable to accomplish this without pursuing international partnerships and more importantly, cross-border acquisitions. This is because China has insufficient domestic reserves of fundamental resources, such as food and energy. As a result, not pursuing cross-border M&A's would significantly inhibit the greater objective linked to rejuvenation, self-sufficiency and the China dream.

*"So their desires to rejuvenate China and all their objectives to reclaim past glory its intertwined with M&A because you can boil it down to a simple fact. Despite their brilliance and ambition and ability, they don't have sufficient resources domestically to achieve it on their own so they have to look outwards."*

*(Participant H1, Hong Kong, M&A consultant)*

Concerning the purpose of the One Belt One Road initiative, participants believed that this project is foremost a strategic tool to provide China with increased resource security. It was further asserted that this initiative, is also used as a vehicle for extending nationalist sentiment and consolidating the public support of the state party. This resonates deeply with the Chinese because of the historic significance of revitalizing the old silk road and also; because of the central role that One Belt One Road initiative plays in the rejuvenation of China.

*"You can say its driven by pure necessity, and it's a smart play to keep their economy rolling, it keeps resources coming, it builds massive international allies in trade and also the narrative directly links to the story to rejuvenate China and reclaim lost glory. It's built on the concept of the former silk road, so the narrative makes sense and can be sold at a much deeper level, and it's a strong and convincing narrative."*

*(Participant M1, Shanghai, M&A consultant)*

## 5.2.2 Research area 2: The direction of the institutionalization process

### 5.2.2.1 Theoretical category 2: Institutionalization Chinese style: Top-down directive

In pursuing national rejuvenation, it was found that this is a consistent belief at all levels of society. As a result of this consistency, a unified environment with a shared societal vision is created. Therefore, the informal institution is able to generate sufficient collective momentum to challenge the rules of the formal institution, and, subsequently, allowing the informal belief to be institutionalized at the national level. The consistency of the informal belief permits the state to direct mandates related to the national rejuvenation of China to subordinates accordingly in a top-down fashion. This formally ensures that national objectives are fulfilled.

*“Normally in China as a country if we have a plan, then this plan will be divided into some small plans and for sure the SOE company will need to complete that small plan that is given by the state. So this is the normal practice in China. Then it is just like...every SOE company will complete their plans, then as a country and as a whole we make that plan.”*

*(Participant L1, Shanghai, M&A consultant)*

*“SOEs are primarily influenced by the government, they can’t make any decisions on their own. Absolutely without a doubt anything outside of the state plans cannot happen. At the SOE level for sure key board members and key finances are totally subject to the approval of party officials. If a party member is in there then that is something strategically placed, and their mandate and their objective is to guarantee to carry out state orders.”*

*(Participant M1, Shanghai, M&A consultant)*

The top-down direction of commands, in the case of institutional change occurring at the national level, goes against the conventional direction of institutional interactions as discussed in Chapter 3. What is traditionally seen in the conventional context is, institutional change occurring from the bottom-up at the individual level, contradicting what has been observed in this research. However, this also illustrates that the findings of this research have unique, China-specific institutional characteristics. In illustrating the institutionalization of the informal belief of national rejuvenation into the formal institution, and thus highlighting the top-down direction of command; two key elements *Greater international influence* and



*Greater resources security for China* are used to support this point. These will be discussed below.

### ***(1) Subcategory 2.1 Greater international influence***

A prominent sub-theme – China seeking greater international influence – was identified during the interviews. It is argued that it was a key element supporting the pursuit of national rejuvenation wherein SOEs are seeking to acquire greater international influence. Participants highlighted that key government programs, namely the One Belt One Road initiative is illustrative that China is trying to extend their global influence. It is therefore argued that the belief of national rejuvenation has been formally institutionalized. Participants demonstrated a belief that through the use of SOEs, China is able to formally extend their global reach. As SOEs are large organizations, with existing infrastructure networks and robust reputations; through undertaking M&As, SOEs and China can thus gain more influence over markets and international trade.

*“...yes, of course, that's the major point of these SOEs, and why the state is making them do these M&As, they want to dominate world trade. They want to extend their global reach, there is of course benefits to China back home but after these M&As, they will move towards a say in trade access to more markets, and also they also have more access to Western technology which China does not have. It's what every Chairman's number one goal is, to make China the best, but the difference with China is, they are not shy to make it public that that is what it wants. Some countries like the US they are very worried if another country like borders on being better than them. China is quite outspoken in the fact that they want to be the best, they don't see it as a sign of tyranny they see it as quite a good thing. It's a positive thing.”*  
*(Participant N1, Beijing, M&A consultant)*

*“the M&As coming out of China currently are deals all related to the Belt and Road project, but this is not for mianzi. This is a direct policy from the state for all Chinese SOEs, if you want to do an M&A it has to in line with this strategy. You can clearly see the shift in geopolitics with this initiative so of course, China is increasing their global footprint with the Belt and Road. But you know, in the eyes of China they want to restore what they believe is their rightful position in the world, it's not a mianzi thing. ”*

*(Participant M1, Shanghai, M&A consultant)*

In connecting to the point of greater international influence; there has been a clear distinction made between 1) conducting cross-border M&A so as to secure greater

international influence and 2) conducting M&A for the sake of face or “*mianzi*.” It was established that the reason for pursuing a cross-border M&A deal goes far beyond that of the superficial value that *mianzi* provides. This is because, in the prevailing Chinese climate, M&A deals need to add significant benefits to China and its future generations or they will not be approved. This allows the facilitation of the rejuvenation of China wherein the global international influence is created from an economically strong and powerful China, where all cross-border M&A deals are well considered with a strategic purpose (as opposed to acquiring vanity trophy assets with no added value).

*"I have also experienced other Chinese companies who have openly stated to the media....well they have publically made comments that they want to be a fortune 500 company and so the assets that they have been targeting have been big headline-grabbing attention purchases... but now fast forward to 2018, they are doing a lot of disposals rather than asset purchases because they have been targeted by the government and the government have been telling the leading four banks to stop the credit facilities to them and have let them know what they think or what is perceived as recklessness in the way that they are splurging."*

*(Participant J1, Hong Kong, M&A advisory)*

## ***(2) Subcategory 2.2 Greater resources security for China***

In line with the rejuvenation of China, it is argued that being self-sustaining, i.e., not relying on trade partners for fundamental resources is also key element in for national rejuvenation. Guided by the central government, the state has publicly encouraged Chinese firms to develop key resources and thus facilitate China to become an economically strong nation. Participants argued that formally China is desperately seeking greater security for the people, which also involve the need to be self-sufficient and thus less reliant on imports. Notable themes included the need to secure critical food and energy resources such as grains and fuel because of the increasing demand from China's growing middle class. A reoccurring theme provided by the participants was how SOEs are directed by the state to focus on the sustainability of the growing population and their need to assure a stable supply of safe food.

*"I really think it's about self-sufficiency and for security because you know they don't really have that much arable land, they are planting on, and in the past, the area has decreased because of industrialization and urbanization. And it's not like*

*people are dying to become a farmer. It's quite the opposite right now with urbanization. I think the market is increasing faster than the supply – with grains anyway. On the grain side, they are definitely not self-sufficient, going forward they have a growing middle class and obviously the wealthy middle class is consuming more meat. They are mainly importing like grains, what is useful for the meat production and animal feed.”*

*(Participant J3, London, M&A analyst)*

*“Chinese SOEs would now assess an investment according to what it brings to their own strategic development in China as opposed to investing in overseas cash cows. The ChemChina-Syngenta deal, one of the rationales for investment is clearly the access to Syngenta's knowledge base in the agribusiness field and in doing so, help China's own food security.”*

*(Participant V1, London, M&A advisory)*

It was found that the theme of resource security is a shared belief among society, and is greatly encouraged by the state. Participants argued that particularly in the case of SOEs, M&A deals are conducted with the objective of securing the fundamental resources needed to serve China's domestic agenda, as opposed to cultivating international relations or assisting the needs of other nations.

*“I think even for natural resource companies if they go overseas to buy for example a mine, I think the whole reason is still to focus on the Chinese market, this is something China needs. They just want to have more control over natural resources, and finally they bring those resources back to China. I don't think they will try to develop business overseas. Especially for SOEs in China, they are not typical companies. They normally don't have overseas employees. They will have employees but not a key foreign employee in the organization, in an SOE most of the senior management they are all Chinese, and they don't speak English.”*

*(Participant L1, Shanghai, M&A consultant)*

It is argued that China is seeking self-sufficiency through international trade. That is because of the increasingly interconnected nature of global trade and commerce, China is taking an outward-looking approach and using cross-border M&A to realize the rejuvenation strategy. Evident in its formal aggressive catch-up strategies such as Made in China 2025, it is accurate to assume that, China would like to become less reliant on other nations. However, the Chinese are also aware that they cannot accomplish without engaging with the West.

*"I think the overarching theme the government is going after its independence, whether it is in resources, commodities independence. The case like ZTE is the*

*absolute nightmare for the Chinese that the US government can come and basically turn off the switch and make a Chinese company die. The fact that another country has leverage on China that they cannot mitigate, whether its technology or resources or whatever... I think that is the overarching theme that they are trying to fix, and so in that sense, technology independence, resource independence is a massive massive theme for the Chinese government."*

*(Participant H1, Hong Kong, M&A consultant)*

*"The way the world is becoming you can't just keep yourself to a small circle. In a very important area like food and technology, every country would like to keep it under control by themselves rather than rely on others."*

*(Participant K1, Shanghai, M&A brokerage)*

*"...I don't think they want to close themselves off. They definitely want to access the Western and global markets. They do want to be self-sufficient but at the same time be connected to the West. I think China knows by now being cut off is not a good idea. They need access to Western technology and Western expertise."*

*(Participant N1, Beijing, M&A consultant)*

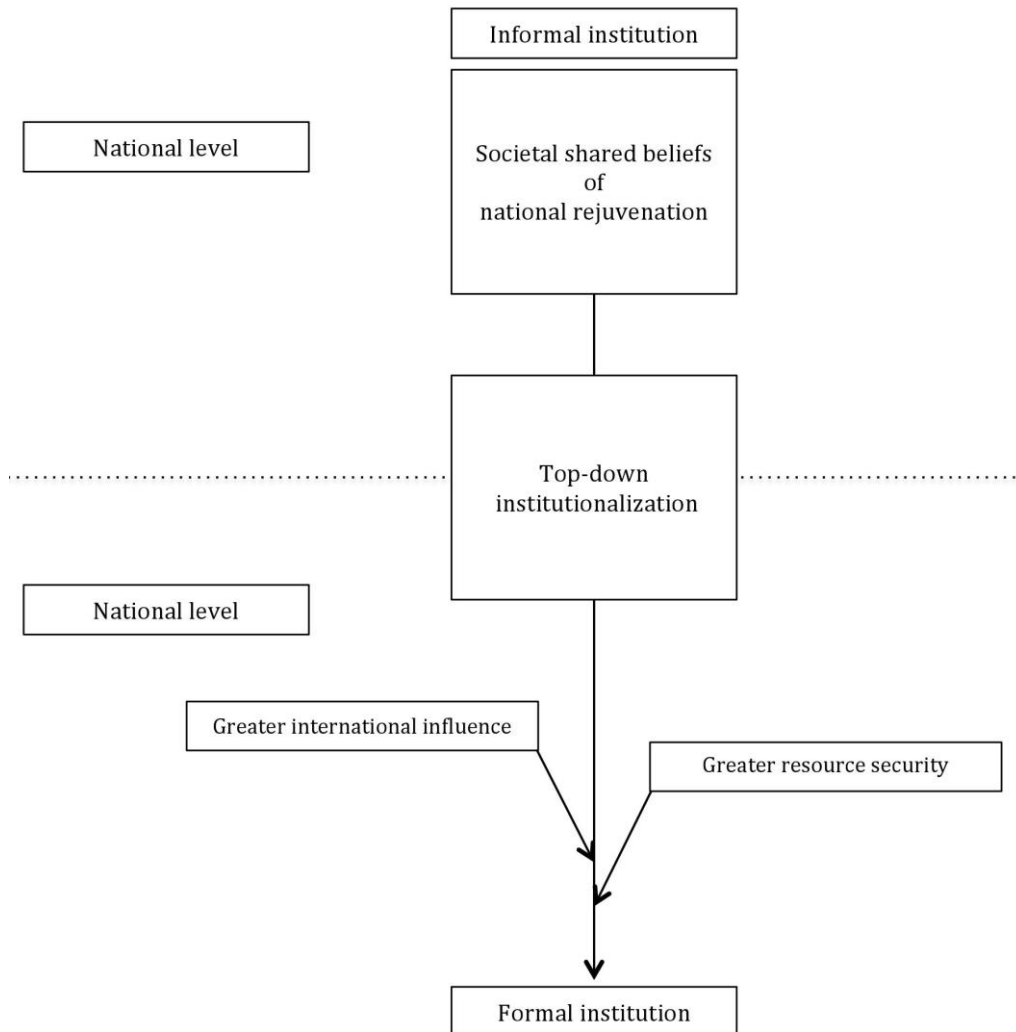
#### **5.2.2.2 Summary of research area 1 and 2: The influence of the informal institution and the direction of the institutionalization process in the China context**

From Figure 5.2, it can be seen that the informal belief of national rejuvenation and the returning the nations' former brilliance is a significant factor in China's informal institution. This is a belief that is shared at all levels of society, thus highlighting the significance of the informal institution in driving formal institutional change. As the informal belief of national rejuvenation is collectively shared at all levels of society, that the state is able to institutionalize informal beliefs into formal institutions. Resultantly, the state is able to direct national rejuvenation through the formal institution.

It was further established that both subcategories are directed from the central state for the SOEs to pursue in a top-down fashion. Thus, going against the conventional institutional perspective that institutional change originates from the bottom up. This illustrates that the conventional institutional view – of a bottom-up approach to institutional change – cannot be applied to the China context. The sub-themes of

greater international influence and greater resource security can be linked to state mandates driven by the objective of national rejuvenation.

Figure 5.2. The influence of the informal institution and the direction of the institutionalization process in the China context



*Constructed by the author*

### 5.3 Key findings on research question 2

“How does the Chinese-style institutionalization process facilitate the unique characteristics of cross-border M&A activities by Chinese state owned enterprises (SOEs)?”

### **5.3.1 Research area 3: The formal institutionalization of the informal belief at the national level**

#### **5.3.1.1 Theoretical category 3: Government led M&A**

From the conducted interviews, it was unanimous that the central government is highly involved in M&A overseas transactions. It is argued that the state can ensure the commitment of fulfilling the informal institutional belief (of national rejuvenation) by the formal institution a number of ways. Firstly, at the national level, fundamentally, the final decision on all cross-border M&As by SOEs is controlled by the central government. Secondly, in order to get approval on cross-border M&As, the M&A deal has to be in line with state plans. Thirdly, it can be expected that the state mandate acts to guide the actions of SOEs.

*State policy this will drive M&A for sure, for example the new SASAC guidelines on overseas investments, it is clear that this will be used to only target companies which are strategically important to Beijing. The days of investments in all sorts of sectors by state-owned companies could be over.*

*(Participant V1, London, M&A advisory)*

*"...that is how an SOE came to work, so it is depending on what the mandate is from the top and depending on how that mandate is interpreted by an organization, and depending on an organization's own culture of focus on profit maximization vs. focus on clear strategic state mission."*

*(Participant J4, Shanghai, M&A brokerage)*

The participants argued that the central government has overruling power and can exert its influence on M&A transactions through its formal policies and initiatives as per the agenda (clearly documented in five-year plans). In the case of the origins of cross-border M&As, participants stated that based on the directives of the state plans, the state council assigns targets to the relevant SOE, which they are then obligated to fulfill.

#### ***(1) Subcategory 3.1 Selective M&A agenda based on the state mandate***

The interviews illustrated that the state plans are powerful tools to guide as to what type of M&A might occur. Key noticeable themes throughout the interviews were

how M&As have transitioned from the previously natural resource focused acquisitions towards technology acquisitions. It can be argued that these types of M&A deals are conducted to strengthen China's national security. Moreover, notable mentioned projects throughout the interviews often included acquisitions related to the One Belt One Road project and the Made in China 2025 initiative. These projects demonstrate China's growing international confidence and China's growing prominence in specifically targeted sectors.

*"...last few years has been a shift away from certainly resource base acquisitions, there's also been a shift away from revenue based acquisition, and there's been much more of a shift towards policy directive that is in higher technology issue that is in line with the national governmental directives. So things in line with China manufacturing 2025. If you're in the coal mining business and you interpret your mandate as I should go and buy higher wind turbine technology or I should buy AI technology...there may not be any link at all with your core business so strictly speaking its not your near-term profit value maximizing problems that your solving, you're responding to just a different particular administrative mandate."*

*(Participant J4, Shanghai, M&A brokerage)*

Participants observed that SOEs must adapt their corporate mission to incorporate the current state directives (regardless of whether it will be detrimental to their profits). Given the ownership structure of SOEs, SOEs consider the fulfilment of the assigned state targets as necessary. Therefore, they must follow the state mandate – which is currently to work towards achieving the Made in China 2025 goal.

*"...in China we only have one political party, and this person decides everything. So when the country have these kinds of policy, so China 2025 and that means some big SOE company in China they will have a plan and targets which they need to achieve before the deadline. So in China, every time when the central government...when they say some plan like we need to do something, it's normally a policy, you need to make that, you cannot fail it. So it will be some political pressure for every boss and every SOE, you need to develop something before that time. I think of course this will be one reason why they go out and try to acquire and buy some high technology company which will support China 2025 this program."*

*(Participant L1, Shanghai, M&A consultant)*

It was agreed by all participants that there has been a definite shift in the cross-border M&As targets that China pursues. Cross-border M&As made by Chinese SOEs have now become increasingly selective. Many participants have expressed that if an SOE is pursuing an overseas target, it will be to serve a very specific

objective. Given how deals are scrutinized far more than before, it is correct to assume that SOEs are looking to acquire strategic targets, and in many cases, China has become more selective than before. It was found that moving forward; all M&A deals have to make sense for China as a whole, with clear benefits that serve the national interest.

*“There is definitely a distinction between the private and SOEs in terms of their target selection. Especially from the SOEs purchases, you know they are definitely targeting certain foreign targets, that there is something that they intrinsically want and need to improve in their own domestic market or either their capability is lacking in that regard and they need something.”*

*(Participant J3, London, M&A analyst)*

*“...they were savvier and they were focused on something more particular that they were trying to acquire. It wasn't so much they wanted to enter an industry, it was more specific to a product or service they were trying to dominate in, so I felt like they were savvier with the criteria, they were more selective and they became more aggressive when it came to negotiations but I think it's from, as they acquired more, they became more experienced and learned from that, and had seen what became successful, and during the valuation they saw what mattered.”*

*(Participant M4, New York, M&A advisory)*

## ***(2) Subcategory 3.2 The influence of state agencies***

From the interviews, it was also evident how state agencies have a substantial influence over cross-border M&A deals. It was speculated that the purpose of these state agencies is to ensure that only the cross-border M&A deals that are in line with national development plans (as laid out by the Five-Year Plans - FYPs) are carried out. It was also pointed out, that the central government maintains control over cross-border M&A's by ensuring that all Chinese enterprises must secure approval for any cross-border investments. For instance, as the State-owned assets supervision and administration commission (SASAC) is in charge of all state assets, SOEs looking to conduct a cross-border M&A deal will need to obtain SASAC approval. Moreover, participants also highlighted the significance of the state agencies National development and reform commission (NDRC) and Ministry of commerce (MOFCOM), both of which are involved in approving cross-border M&As.

*“...it's more of a macro way of looking at a thing. At the moment if you make your case to the state council, you will have the state backing, and you will have bank*



*financing - if you can let us see your plans. If you get the approval of the M&A plan then you will have state backing."*

*(Participant G1, Beijing, M&A advisory)*

*"...so in China you have the NDRC who approves the overseas investment, with a certain amount you go to the state level... Some projects go through the application process which means the government will see the benefits that come out of the project. At least the government needs to see that the projects have some economic benefits, especially after many failures in terms of overseas international acquisitions. So I think especially right now Xi Jinping is more careful about China's international reputation."*

*(Participant T1, Geneva, M&A consultant)*

The importance of the state agency State administration of foreign exchange (SAFE) was also voiced by the participants. Following the significant capital flight from China as a result of overseas transactions, the state council has since urged state banks and SAFE to be more vigilant in their lending. Critically, given that the Chinese renminbi (RMB) is not freely convertible, the central government can, therefore, regulate cross-border M&A through imposing greater capital restrictions through the SAFE agency.

*"This year (2017) outbound investment has been quiet due to capital flow restrictions. The SAFE has been tasked to vet cross-border transfers. I believe the restrictions will apply to deals of a certain threshold amount, but regardless of amount, this has certainly been a game changer for M&A."*

*(Participant V1, London, M&A advisory)*

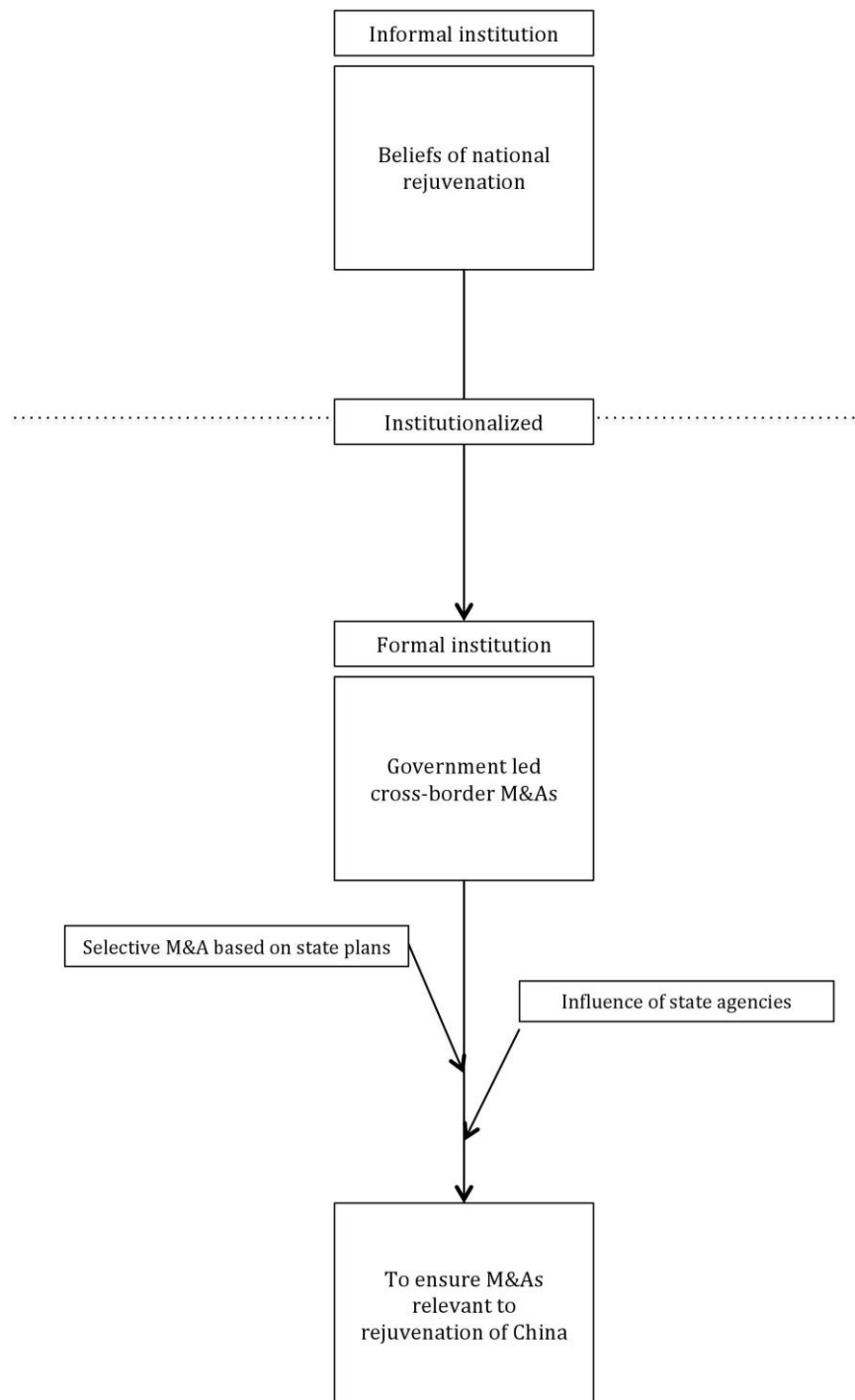
Participants believe the administrative M&A process has become increasingly difficult as a direct result of the 2016 surge in cross-border M&A deals. SOEs now have to submit various additional forms of applications to state agencies to obtain M&A approval.

*"If you want approval there are multiple organizations you need to get approved by - and that's SASAC, MOFCOM, SAFE. And above SAFE is PBOC and the state council, and so again there are many organizations that have to approve the process. It's become very cumbersome over the past few years."*

*(Participant H2, Hong Kong, M&A consultant)*

### 5.3.1.2 Summary of research area 3: The institutionalization of the informal institution into the formal institution at the national level

Figure 5.3. Institutionalization of the informal institutional beliefs into the formal institution at the national level



*Constructed by the author*

From Figure 5.3, it can be observed that upon institutionalization of the informal belief of national rejuvenation, the belief becomes a formal rule. That is, the state being able to ensure the proactive pursuit of national rejuvenation by closely regulating all cross-border M&As deals. This involves the following formal measures; firstly, encouraging increasingly selective deals that are well aligned with state plans and; secondly, insisting on the use of specific state agencies to vet cross-border M&A deals. Therefore, only the cross-border M&A deals that conform to national development plans are approved. As a result of the greater selectivity and influence outlined in the preceding paragraph, it can be ascertained that cross-border M&As are directed in a top-down fashion by the state.

### **5.3.2 Research area 4: Interaction between the national level and the organizational level in the formal institution**

#### **5.3.2.1 Theoretical category 4: The obligation to fulfill state plans with autonomy**

Given the relationship that SOEs have with the state, participants argued that SOEs are compelled to carry out mandates as directed from above. Participants also brought attention to the point that as SASAC directly manages SOEs; the subsequent behaviour of these organizations is subject to significant state influence.

*"...the existence of SOEs from the very beginning they have their purpose, they are the pioneers of developing this country, so at the very beginning the communist party laid down their strengths, in doing so they promoted the entire economy by their firm grips on the entire country through SOEs. Because they are quasi-government, they have to do things not entirely economic and they have to carry out the plans laid out for the country by the state..."*

*(Participant G1, Beijing, M&A advisory)*

A further key theme that emerged during interviews, was that SOEs do have a degree of autonomy. However, this autonomy is extended to SOEs, provided that their endeavours fall within the boundaries and parameters of state plans. That is, once the state assigns a directive to an SOE, it is then left up to them to decide how they will fulfill state targets. Participants underscored that this autonomy stems from the fact

that both the state and SASAC, lack the resources and knowledge to manage the SOEs themselves directly.

*“They obviously have the bandwidth to do stuff or not do things, but its partially because the administrate or supervisory agency does not have the capacity to run a business. So if anybody has to run a business, the manager at the SOE has to run the business. And the people outside of the business doesn’t have the knowledge base nor do they have the economic incentive to create value over the long term.”*  
(Participant J4, Shanghai, M&A brokerage)

As already highlighted, SOEs do have a consequential degree of autonomy in relation to running day-to-day business matters. The overarching theme was one that pointed towards SASAC setting the overall direction for the SOE, with the granting of autonomy being dependent on whether the enterprise works within the parameters set out by SASAC. Moreover, it was also noted that it is vital for the SOE to inform SASAC of their business plans through an annual report. Within this annual report, the SOE should detail any cross-border M&A plans. By making SASAC aware of their cross-border M&A plans, the SOE will have the autonomy to pursue any overseas target they see fit – provided it aligns with the requirements outlined by China's FYPs.

*“There is an overarching requirement to also comply with the bottom line of their supervisors and shareholders which is SASAC. So if SASAC says you must have this deal done by a certain time, it cannot involve X Y Z in the commercial threshold, its OK fine as long as you don't exceed those bottom line requirements, you can demonstrate whatever entrepreneurial spirit you can and within the boundaries of what you are allowed. So yes the manager does have a certain amount of decision making power, but it's what's within what SASAC allows.”*  
(Participant J1, Hong Kong, M&A advisory)

*“How the SOE operates in overseas M&A is that, they will have a report at the beginning of the year that lays out every aspect of their operations to the shareholder, i.e., the SASAC, and within it they will detail if they have any plans, they will say it, and that's usually the way SOEs operate because if you say that and that has been approved then when you are actually pursuing them in the middle of the year, you don't need any subsequent approval or registration with SASAC because they acknowledge your plans.”*  
(Participant G1, Beijing, M&A advisory)

#### ***(1) Subcategory 4.1 Social vs. Profit-driven deals***

As a subsequent outcome of the state having direct involvement in organizational affairs, interview participants stated that this further complicates the behaviour of SOEs. In following the state directive, the objective of each SOE deal will depend significantly on the targets set out in the FYPs. Thus, the cross-border acquisitions made are greatly affected by what the state plans are, and how SOEs interpret state mandates. For example, plans could focus on working towards a more socially harmonious China, resulting in all cross-border deals having some social objectives. While other FYPs may be driven by increasing national GDP and, therefore encourage SOEs to pursue profitable cross-border targets. In the case of the latter, SOEs would be assigned aggressive performance targets by the state. To this end and, in most cases, meeting these targets would require the pursuit of lucrative cross-border M&A opportunities by SOEs.

*“... they (the state) would say I would like to see the SOE revenue grow 50% or I like to see the revenue double. Or they would say I would like to see 10 or 20% of your revenue come from international sources. So its really hard for a company to grow a business that fast so you’ve got to buy and acquire something...”*  
(Participant J4, Shanghai, M&A brokerage)

It was further reiterated by all participants that the state council puts great pressure on SOEs to be competitive. But, at the same time, SOEs are also held responsible for sustaining social livelihood. Illustrated in the context of cross-border M&As, SOEs are encouraged by the state to acquire natural resources to fuel China’s growing economy. But in parallel to this, the market prices of these commodities are kept artificially low. This serves to subsidize other industries dependent on stable raw material prices and, thus preventing SOEs from maximizing profitability.

*"Of course for the government they want them to make a profit, if they can't make a profit it's a financial burden for the government and for all the people in China. But we can see the problem for the national SOEs, they also need to take responsibility like social responsibility and other things. I can give you an example of coal price, they are a state-owned company and buy many mines overseas, if they sell coal at the spot market price, then they will get a much higher price, but they are an SOE and the government does not let them to sell the coal at the market price because ... if the coal price too high, then the factories will have too high price to produce steel or cement so they need to control the coal price, because this is the fundamental*

*price for many products so they need to control many factors and then they will decide the price. This is only one example, but you can apply this to all the SOEs companies in China."*

*(Participant L1, Shanghai, M&A consultant)*

## ***(2) Subcategory 4.2 The SOE paradox: Undeniable influence yet a challenge to engage***

Also brought to the discussion was the conflicting view on the global reputation of SOEs and how they perceived as business partners. Participants pointed out that, accountability to the central government combined with a lack of transparency with regards to the cross-border M&A process has resulted in conflicting opinions on the reputation of SOEs. Participants all stated that the necessary approval by the state on all SOEs business matters has subsequently resulted in considerable uncertainty during cross-border deals. In some cases, approval from the state took up to 18 months for some M&A deals, thus creating significant complications and frustration for the SOEs' overseas counterparty. As a result of the top-down bureaucratic guarantee which is implemented by the state, SOEs have subsequently gained a reputation for being difficult to engage and challenging to work with.

*"...just a lot of red tape and bureaucracy, challenging in the sense of there was little transparency definitely. In general, it felt like we just knew that we had to handle affairs with a bit more caution and making sure that we were careful in every step of the M&A process."*

*(Participant M1, Shanghai, M&A consultant)*

*"...it was delays more than anything, like oh it would take 18 months to get to this process, or this far through negotiations and what have you. But I do think it presented a lot more difficulties and challenges as well as when we came to negotiations in terms of the state's interest."*

*(Participant M4, New York, M&A advisory)*

*"So some Chinese companies they can begin the process of an M&A, but in the middle of the process they disappear, they don't answer any calls or don't send a non-binding offer, so people are a little skeptical of the acquisition by Chinese companies. They don't have the greatest reputation because I have been in the process of an M&A where we were selling to the Chinese, and in the process of the M&A from one day to another they stopped answering phone calls, and they stopped answering messages."*

*(Participant M2, Santiago, M&A advisory)*

At the same time, despite their reputation of being challenging to work with, SOEs are also widely respected. This is due to their size, political influence, and their unrivalled access to capital. This results in the ability to conduct substantial amounts of cross-border M&As. Therefore, it was argued that without the assistance of the state, SOEs would not have been able to obtain the global recognition they enjoy today. Subsequently, despite knowing the bureaucratic challenges associated with SOEs during the M&A process, targets still specifically seek to be acquired by SOEs - due to the vast pool of resources an SOE can attain as a result of the state association.

*"...For sure like for us at the "global world leaders event "it's incredibly important to have the SOEs there. Everyone wants the Chinese to be part of the conversation, they are taken incredibly seriously because they are massive and they are growing. They are just huge companies especially in the energy sector. CNOOC, CNCP, Sinopec, all these companies are huge conglomerates and they acquire a lot and spend a lot of money. For the other oil companies like ExxonMobil, it's the SOEs are who they want to meet."*

*(Participant J2, Geneva, M&A analyst)*

*"SOEs they usually have a reputation of having a lot of liquidity so when they have the potential capacity of buying a very large enterprise. So literally in South America there are lots of companies that say please find me a Chinese buyer because I know they full of liquidity and they pay high prices even higher than the market price... that is what people think of Chinese SOEs."*

*(Participant M2, Santiago, M&A advisory)*

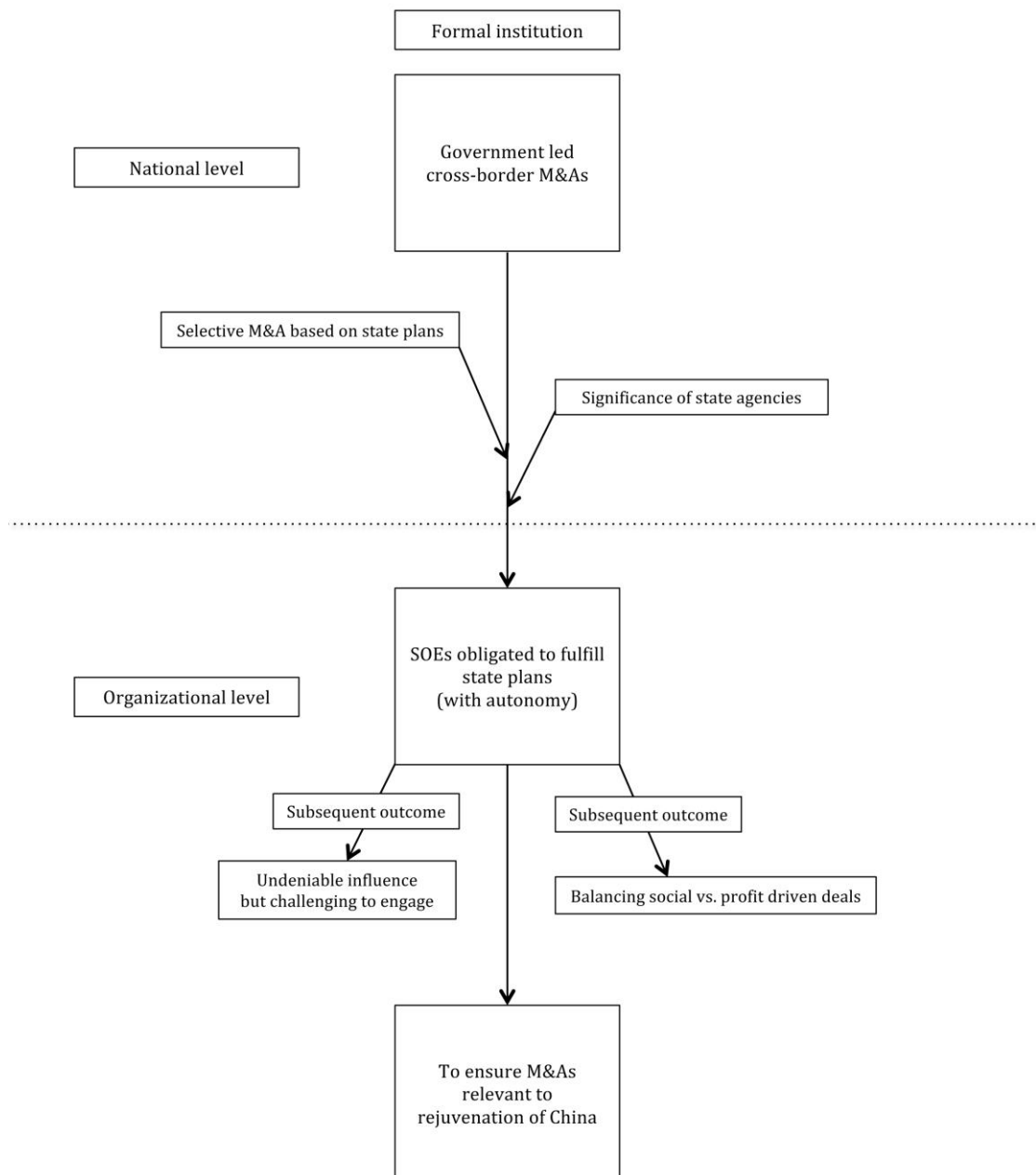
That said, it was also argued that while conducting cross-border M&As received the attention of global peers, SOEs would need to do more in order to be acknowledged as a competent multinational organization. For example, driving synergistic integration while also exploiting the competitive strengths of a given acquisition.

*"...not just by the pure fact that they done an international M&A, it's about whether they can integrate that acquisition and whether they can draw competitive strengths out of that acquisition. Its really depends whether they do well with that acquisition or not. If they do well, it will strengthen their competitive position in that market. I don't think they will get creditability just because they have done an international acquisition. I think we are beyond that, there was a time, wherein it was considered prestige if a company made an international acquisition, I think they are beyond this now."*

*(Participant H2, Hong Kong, M&A consultant)*

### 5.3.2.2 Summary of research area 4: Interaction between the national level and the organizational level in the formal institution

Figure 5.4. Interaction between the national level and organizational level within the formal institution



*Constructed by the author*

From Figure 5.4, at the national level, the state can direct and guide cross-border M&As undertaken by SOEs. This is done through aligning deals with the state plans and ensuring approval from the appropriate government agencies is required. At the



organizational level, SOEs as an extension of the state are obligated to execute government mandates; thus acting as an organizational agent of the state.

As a direct outcome of close state ties, it was found that the objective (social or profit-driven purpose) of any cross-border M&As undertaken by an SOE would be influenced by mandates set out in state plans. Moreover, it was established that SOEs are simultaneously undertaking the role of being a commercial profit entity whilst also being a public social entity. Furthermore, the top-down relationship between the state and SOEs also has resulted in a conflicting reputation of SOEs. The need for the bureaucratic guarantee has earned SOEs the reputation of being challenging to engage and difficult to work with. In saying this, on the other hand, SOEs are in fact hugely respected as a result of the political power behind the organizations.

### **5.3.3 Research area 5: Interaction between the national level and the individual level in the formal institution:**

#### **5.3.3.1 Theoretical category 5: Strategically appointed managers by state**

Participants were unanimous in the view that top-level SOE managers are strategically placed into their positions by either SASAC or the state council. This is done to ensure that managers work in-line with and further state objectives, thus indicating at the individual level, managers are also directed in a top-down fashion. Regarding selection criteria, participants stated that high-level managers would either be political figures or industry experts with strong political ties. These SOE managers will generally be subject to substantial political control and influence. To this end, it was agreed that intermingling between SOE managers and political figures was both expected and common.

*"So usually the decision makers, i.e., board level will consist of who has been in the SOE for a very long time and people who are from whatever sources. So the head of SASAC was the previous head of CNPC. So you will have political intermingle selection, and then sometimes you will have few political players like provincial heads who's been defeated in his political career and has been put into an SOE as a deputy executive chairman or something. It's difficult to say but usually a mix of*

*these so people being appointed by the top and you've had people who have been there for their lifetime."*

*(Participant G1, Beijing, M&A advisory)*

*"...the central SOEs, if you look at SASAC's website, they have the centrally owned SOEs, all the CEOs and chairmen have to be selected by the government."*

*(Participant T1, Geneva, M&A consultant)*

Despite the appointment of SOE managers being a politically led process, it should not detract away from the fact that these managers are high calibre, competent individuals. The participants supported this view, and were in agreement that these managers will generally be experienced, well-respected professionals in their fields. In addition, SOE managers will combine their professional capabilities with political astuteness to further their careers. Critically, SOE managers will be considered by the state council as the best individuals to lead an SOE.

*"Yes, they definitely are politically connected, but they are highly qualified, maybe their English is not up to the mark, but they will come with their translators. Usually, the SOE managers are from the top universities in China. They are very capable. Maybe the CEO is nominated by the state party. But at the working level, like regional heads and country heads, they are professional."*

*(Participant R1, Singapore, M&A advisory)*

### ***(1) Subcategory 5.1 Cross-border M&A for career leverage***

Due to the close ties between SOEs and the party, it was discussed by the participants that the behaviour of SOE leaders is also restricted and highly influenced by the state. Many participants also asserted that SOE chairmen are regarded as high-ranking officials within the party. Thus, they have substantial political influence but are also under great political influence. Critically it was asserted that SOE managers are politically incentivized. For example, it is widely understood that an SOE chairman will seek to be appointed with the longer-term ambition of advancing their political career within the party

Political promotions based on whether administrated targets assigned to the SOE are met. Thus indicating that SOE managers are incentivized to act as agents to the state. Party recognition and other political incentives will be used as a core motivation to

encourage exceptional performance from SOE managers. Interestingly, when asked whether an SOE manager would get politically rewarded as a result of leading a successful M&A; participants agreed that this would indeed act as strong leverage for the SOE manager to obtain a political promotion. Thus, it could be argued that it is in the personal interest of the SOE manager to pursue M&As.

*“My feeling is SOEs internal organization structure is very complicated and also its very difficult to get promoted and you have to navigate the hierarchy and all this stuff... so I would say if you can pull off a successful deal that would be their motivation for a promotion. Well at the end of the day it's a personal gain but for them its also a political gain as well because if you see the personnel movement among the SOEs and between the government, like some of the chairmen of one SOE just moved to the be vice president or vice governor of a province. It's interchangeable when it comes to that level so if you are successful during your period of the SOE and if you make the company profit double or triple through M&A yes it's a good personal gain in terms of business wise and political wise and also a promotion up to the political ladder.”*

*(Participant T1, Geneva, M&A consultant)*

*“If the M&A doing well and you are meeting your administrative targets, you can be very quickly promoted. The higher you go, the less you get compensated based on the pure economic performance of your SOEs, and the more you get compensated based on fulfilling the state goals or targets. Like if you're the COFCO boss, you can move to Sinopec (a bigger SOE), and from there you can be promoted to a governor or minister. Its definitely happening, all these guys all belong to the Chinese party.”*

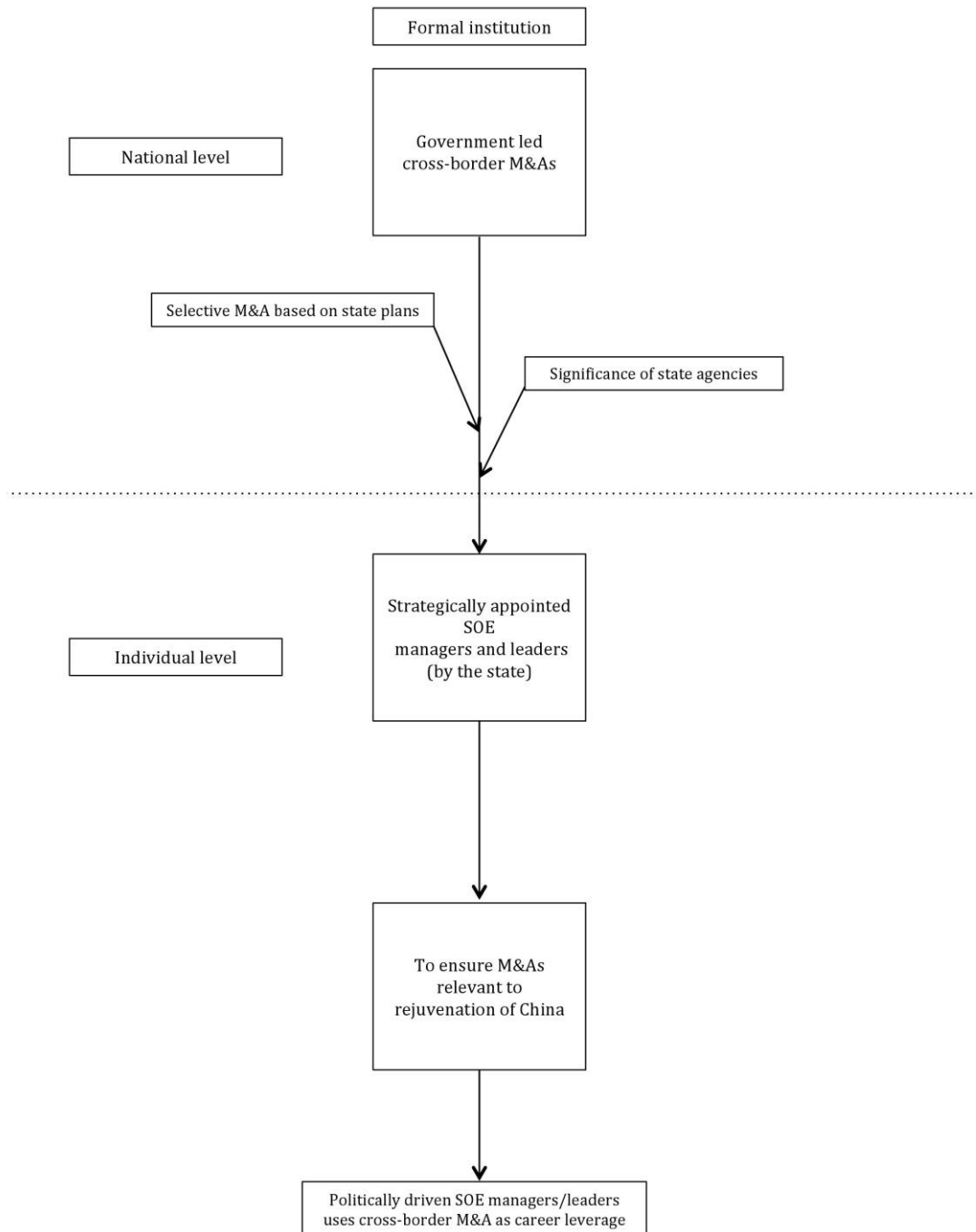
*(Participant J4, Hong Kong, M&A consultant)*

It was also discussed that a political promotion is not just a motivator for the SOE chairman; it is also in the best interest of all SOE managers involved with the M&A deal, as each should also receive appropriate political recognition for their efforts. However, the political benefits of successfully facilitating an M&A are not strictly reserved for SOE managers; there is also scope for other involved individuals to secure benefits. For example, those employed by banks and the administrative agencies responsible for deal approvals and so on - thus everybody in the chain of command are incentivized to pursue cross-border M&As.

*“For example was the COFCO boss motivated to buy Noble because he knew he would get a political promotion? Yes of course, but you know you everybody can also earn a lot of money as well, but everybody wants to do a big project, not only the boss of COFCO but everyone involved can be promoted as well. Like the government officials who were involved in approving this deal as well and also those who give the orders from inside the government and everyone who can prove that this was a successful deal. It's a great honor for everybody involved.”*

### 5.3.3.2 Summary of research area 5: Interaction between the national level and the individual level in the formal institution:

Figure 5.5. Interaction between the national level and individual level within the formal institution



*Constructed by the author*

Figure 5.5 illustrates that the state further encourages cross-border M&As to comply with party objectives at the individual level. In this case, top-level managers are placed explicitly into the SOEs by the central state. This is carried out to ensure that all cross-border M&As undertaken by SOEs are relevant to the national plan of rejuvenation. Thus, it can be seen that at the individual level, top-level SOE managers and leaders, are also agents to the state party and are under considerable top-down political influence.

In being appointed into an SOE leadership position, an SOE manager does not have full autonomy; their behavior is in fact constrained by the state. Moreover, top SOE management are politically incentivized. Therefore, their actions are driven by a desire to meet state targets, and thus, they will conduct cross-border M&As as a means to obtain party recognition and further their political career.

## **5.4 Concise summary of key findings**

The constructed table below (Table 5.1) has presented the comprehensive findings of the conducted interviews with the 21 interview participants. Questions surrounding core categories and subcategories were created and addressed to the interview participants. The participants' responses assisted in the facilitation and the creation of new theory surrounding the dynamics between the formal and informal institution in motivating cross-border M&A by Chinese SOEs. The findings from these tables have been compared to existing literature and state policies for validity and reliability. They will be discussed in detail in Chapter 6. This research follows the following guidelines for constructing Tables 5.1.

Table 5.1. Summary of key findings based on responses from interviewees

Panel A. National level (Informal institution)						
Research Area	Theoretical categories	Subcategories	Agree	Neutral	Disagree	Total score
RA1. Collective societal belief of national rejuvenation	TC1. Rejuvenation of China	-	M1(3), H1(3), V1(2), J2(3), A1(2), M2(1), H2(2), J3(2), K1(3), N(13), L1(1), R1(2), P1(1), K2(2)	G1, T1, T2 M3, J4, J1, M4		30 Strong agreement
RA2. Direction of institutionalization process	TC1 2. Institutionalizati on China style: Top-down directive	SC2.1 Greater international influence: China using M&A to extend its global power and influence	M1(2), J2(3), A1(3), H2(3), J3(3), T2(3), N(3), M4(1), R1(3), P1(1), K2(3)	V1, M2, J4, J1	H(3), G(3), T(1), MO(1), L(3), K(3)	15 General agreement
		SC2.2. Greater resource security for China: Conducting M&As for China’s resource security; indications of Chinese desires to be less reliant on others; more self-sufficient	M1(3), H1(3), V1(2), G1(3), J2(3), M2(3), H2(3), J3(3), TR(3), J1(3), L1(1), MI(2), R1(3), P1(3), K2(3)	M3, T1, J4	A1(3), K1(1), N1(1)	37 Strong agreement
Panel B. National level						
RA3. Formal institutionalization of the informal belief at the national level	TC3. Government-led cross-border M&A	SC3.1 Selective M&A agenda based on the state mandate: Indication that M&As are becoming more selective and targeted based on the state mandate	M1(3), H1(3), V1(3), G1(3), J2(3), A1(3), H2(3), J3(3), T2(3), J4(3), J1(3), K1(3), N1(3), L1(3), R1(3), P1(3), K2(3)	M2, M4	M3(1), T1(1)	49 Resolute agreement
		SC3.2 Significant of state agencies: Involvement of state agencies in approving/disapproving M&A	M1(3), H1(3), V1(3), G1(3), J2(3), A1(3), M2(3), 1T(3), H2(3), J3(3), T2(3), M3(3), J4(3), J1(3), K1(3), N1(3), L1(3), M4(3), R1(3), P1(3), K2(3)			63 Resolute agreement

Panel C. Organizational level						
Research Area	Theoretical categories	Subcategories	Agree	Neutral	Disagree	Total score
RA4. Interaction between national level and organizational level	TC4. The obligation to fulfill state plans with autonomy	SC4.1.A Social responsibilities: SOEs must conduct deals with a social objective thus hindering profitability	M1(3), H1(3), V1(3), G1(3), J2(3), T1(3), H2(3), J3(3), T2(3), J4(3), J1(3), K1(3), N1(3), L1(3), M4(1), R1(2), P1(3), K2(3)		A1(1), M2(3), M3(3)	42 Strong agreement
		SC4.1.B Profit responsibilities: SOEs conduct profit driven deals when instructed by the state	G1(3), H2(3), M3(3), J4(3), N1(3), L1(3), R1(1), K1(1), J1(2)	V1, J3, T2, K2, P1, M1, J2	M4(3), H1(1), A1(3), M2(3), T1(3),	9 General agreement
		SC4.2: The SOE paradox: Undeniable influence yet a challenge to engage: SOEs are influential organizations but challenging to work with	M1(3), H1(3), V1(3), G1(3), J2(3), A1(3), M2(3), 1T(3), H2(3), J3(3), T2(3), M3(3), J4(3), J1(3), K1(3), N1(3), L1(3), M4(3), R1(3), P1(3), K2(3)			63 Resolute agreement
Panel D. Individual level						
RA5. Interaction between national level and individual level	TC5. Strategically appointed managers by state	SC5.1. Cross-border M&A for career leverage: Political aspirations by SOE leaders, therefore, using M&A as leverage to get politically promoted	M1(3), H1(3), L1(1), V1(3), J2(3), A1(3), T1(3), H2(3), J4(1), J1(3), K1(3), N1(3)	G1, M4, P1, K2, R1, J3, T2,	M2(1), M3(2)	29 Strong agreement

\*Notes: Assessment for the total scoring system

1. All responses given by the interview participants on the key categories presented by this research were categorized into views of Agree, Neutral or Disagree.
2. Each participant's response was then assigned a score from 1 to 3 depending on how strongly the participant agreed or disagreed with the category.
3. In terms of Agree: a score of 1 indicates general agreement; 2 indicates strong agreement; 3 indicates resolute agreement
4. In terms of Disagree: a score of 1 indicates general disagreement; 2 indicates strong disagreement; 3 indicates resolute disagreement
5. For each research category, the scores assigned to each participant are then totaled. In scenarios where there are both responses within the Agree and Disagree categories, the minority score is deducted from the majority score. The highest collective score is taken as the predominant view
6. The maximum possible collective score is 63. Scores between: 1 - 21 will indicate general disagreement/agreement; 22 - 42 will indicate strong disagreement/agreement; 43 - 63 will indicate resolute disagreement/agreement.

## 5.5 Conclusion

The following findings were drawn from Table 5.1 can be summarized as follows:

Regarding research areas 1 and 2, it was found that there is an informal shared belief in the concept of national rejuvenation at all levels of society. As a result, the state can institutionalize the belief of national rejuvenation and drive the formal pursuit of rejuvenation in a top-down fashion. As an indication of the top-down institutionalization of this belief, the desires for SOEs to extend its international influence, and the desires to increase resource security were found.

In terms of research area 3 - the formal institutionalization of the belief at the national level; the state can ensure the achievement of this formal objective by regulating all cross-border M&As deals to be in accordance with national development plans. In doing so, it was found that cross-border M&As are becoming more selective while also serving specific state objectives. Furthermore, the state can regulate cross-border M&As through the use of state agencies, which are responsible for approving/disapproving M&A applications. This means that all cross-border M&As, undertaken by the national-level SOEs, fall under heavy state influence. This further highlights that the typical view of a bottom-up approach to institutional change is not applicable in the China context.

Concerning research area 4 - the interaction between national level and organizational level, participants eluded to the point that SOEs are formally acting as agents to the state. Once the state mandate has been announced and targets have been assigned to SOEs, they have autonomy to proceed in participating in cross-border M&As. However, SOEs must ensure that all deals fall within the parameters of state mandates. Therefore, the objective of the M&A deal (whether social or profit-driven) is highly influenced by what is guided in these state plans. Simultaneously, as an outcome of the continuous state influence on the cross-border M&A process, SOEs are faced with a paradox. On the one hand, it is agreed that SOEs are globally respected organizations with considerable importance and influence; this is a direct result of their ability to undertake substantial M&As and, a direct benefit of state



support. However, on the other hand, the bureaucratic hurdles encountered throughout the M&A process, has meant SOEs are considered difficult to work with.

In terms of research area 5 - the interaction between the national level and the individual level, it was found that SOE top-level managers and leaders are strategically appointed by the state. Thus, at the individual level, managers are also considered as agents of the state and, are under considerable political pressure. It was also ascertained that SOE top-level managers are highly politically incentivized. Specifically, SOE managers incentivized to conduct successful cross-border M&As as leverage to attain a political career promotion.

## **Chapter 6**

### **Discussion**

## **6.1 Introduction**

Following Chapter 5's presentation of the findings of this research, this chapter will critically discuss the key findings of this thesis. A systematic analysis and objective interpretation of these findings will be supported by key policies, statements, and regulations made by the central government. Findings will be organized in line with the key interactions observed in the informal and formal institutions, and the corresponding dynamics between the national, organizational, and individual levels. The final section of this chapter will outline the proposed conceptual theoretical framework, designed to highlight the specifics of cross-border mergers and acquisitions (M&As) undertaken by Chinese state-owned enterprises (SOEs).

## **6.2 Discussion on research question 1**

“What are the distinctive features of the institutionalization process in the China specific context?”

### **6.2.1 Research area 1: Collective belief of national rejuvenation at all levels of society**

#### **6.2.1.1 Theoretical category 1: The rejuvenation of China**

This research uncovered a number of themes that connect the informal institution to the collective Chinese desire for national rejuvenation. A prominent theme that emerged throughout discussions with participants was the significance of China's century of humiliation. The main point being how this difficult period damaged Chinese pride and moreover, how this experience continues to influence the Chinese psyche. The reason for this sustained impact is connected to China's past cultural and scientific prominence. The Chinese view themselves as highly capable, pioneering people, therefore making the acceptance of a lost century of progress or humiliation, difficult. Thus, the concept of national rejuvenation is widely shared because of the cultural poignancy that drives this ideology; namely, restoring China's lost glory and reinstating the nation as a global leader both politically and

economically (Yan, 2001; Yu, 2017). To this end, it was found that the rejuvenation of China is something that is expected by most Chinese, at all societal levels. This narrative continues today, with a strong example evident in the speech delivered by Xi Jinping at The 19th National Congress of the Communist Party of China in 2017. Xi openly called upon the Chinese nation to realize the China Dream of national rejuvenation as follows.

*“We should keep on working with great determination to accomplish the three historic tasks of advancing modernization, realizing China's reunification, and preserving world peace and promoting common development; we should secure a decisive victory in finishing the building of a moderately prosperous society in all respects, strive for the great success of socialism with Chinese characteristics for a new era, realize the Chinese Dream of national rejuvenation, and see that our people realize their aspirations for a better life”*<sup>41</sup>

Secondly, it is pointed out that large-scale government-led projects, such as the One Belt One Road initiative, i.e., revitalizing the historic Silk Road trade route provides a fitting narrative of how the central government is strategically working towards reinstating China's excellence. The benefits of the Chinese building infrastructure and enhancing trade channels that connect China to the West will be highly consequential and impactful. This initiative will allow China to obtain large volumes of resources, while at the same time boosting Chinese economic activity, and building political allies. The One Belt One Road initiative enjoys widespread domestic approval in China. Owing to the historical significance of the trade route, the project resonates with the underlying historical principles of the Chinese dream to reclaim lost glory. Supporting this, Nordin & Weissmann (2018) understand the Belt and Road as a redirection of China's attempt to build a "community of shared destiny." This shared destiny includes shared beliefs, mutual respect, and trust, but also, a destiny that sees China in a central position (Callanhan, 2016). It is a result of the collective shared dream among the Chinese that allows the informal institution to drive formal institutional change. That is, the consistency within the informal institution allows the central government to direct national rejuvenation in a top-down fashion.

---

<sup>41</sup> CPC national congress. *Full text of Xi Jinping's report at 19<sup>th</sup> CPC national congress*, <[http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content_34115212.htm)>, 2017.

## **6.2.2 Research area 2: The direction of the institutionalization process**

### **6.2.2.1 Theoretical category 2: Institutionalization Chinese style: Top-down directive**

This research argues, that the belief of national rejuvenation has been institutionalized from the informal institution into the formal institution at the national level. This is a result of the belief in rejuvenation being collectively shared at all levels of society. Subsequently, this belief is legitimized by society allowing it to be supported and popularized as a national sentiment. Resultantly, as this is a widely shared belief, has become institutionalized into a formal rule. Moreover, because the desire of national rejuvenation is a vision that is shared among all level of society, it subsequently allows the central government to direct formal commands in a top-down fashion to the subordinates below thus formally carrying out this national objective.

Moreover, it is evident that the top-down style of command is unique and characteristic to the Chinese context. This form of institutionalization goes against the conventional style of institutionalization i.e., institutional change occurs from bottom up. In the conventional context, there is a specific focus on the individual level to envision new institutional meaning as the method for advancing formal change (Webb, Tihanyi, Ireland, & Sirmon, 2009). The individual can obtain legitimacy for these new actions by way of amassing users and adoption by groups of society (i.e., the organizational level). When there is enough societal support, this can drive formal institutional change at the national level, thus changing the rules of the game (Polletta & Jasper, 2001). What is seen in the China context is that new formal change is closely guided by the central government. That is top-down directives, from the state to SOEs and, finally to SOE leaders - i.e., at both the organizational and individual level.

The formal institutional belief of national rejuvenation, communicated in a top-down fashion, is indicative of how the state views its central role in the task of national rejuvenation. At the 19<sup>th</sup> National Congress in 2017, the state emphasized the importance of societal alignment and following central leadership, in realizing the

goal of national rejuvenation. Additionally, during the National Party Construction Work Conference of State-Owned Enterprises in 2016, the critical role of SOEs in relation to national rejuvenation was highlighted. At this conference, the state defined SOEs as "important forces to implement the decision by the party."<sup>42</sup> Subsequently, state formalized national initiatives, aimed at driving national rejuvenation, such as Made in 2025, were introduced. Made in China 2025, is focused on strengthening and enhancing China's position as a manufacturing power, and thus, links into and, further supports the concept of rejuvenation.

*"National rejuvenation has been the greatest dream of the Chinese people since modern times began...Realizing our great dream demands a great project. This project is the great new project of Party building...without the leadership national rejuvenation would be just wishful thinking...the Party exercises overall leadership, we must strengthen our consciousness of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment."*<sup>43</sup>

*"We must firmly grasp this major historical opportunity, implement the strategy of manufacturing a strong country in accordance with the requirements of the strategic layout, strengthen overall planning and forward-looking deployment, and strive to achieve a hundred years of the founding of New China through three decades of efforts. To build China into a manufacturing power that leads the development of the world's manufacturing industry and lay a solid foundation for realizing the Chinese dream of the great rejuvenation of the Chinese nation."*<sup>44</sup>

### ***(1) Subcategory 2.1 Greater international influence***

In finding support for the formal institutionalization of China's beliefs of national rejuvenation; it is argued that the objective of rejuvenating China can be observed through the state directed objectives of increasing greater international presence, and China's desire to further their global influence. Evident in the speech delivered at the 13<sup>th</sup> National People Congress in 2018, the state announced a move towards greater international cooperation through the One Belt One Road initiative.

---

<sup>42</sup> Xinhua, Xi Stresses CCP leadership of state-owned enterprises, <[http://www.xinhuanet.com/english/2016-10/11/c\\_135746608.htm](http://www.xinhuanet.com/english/2016-10/11/c_135746608.htm)>, 2016.

<sup>43</sup> CPC national congress. *Full text of Xi Jinping's report at 19<sup>th</sup> CPC national congress*, <[http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content_34115212.htm)>, 2017.

<sup>44</sup> State Council. *Notice of the State Council on "Made in China 2025,"* <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>>, 2015.

*“China will continue to actively push forward the Belt and Road Initiative, and strengthen its exchanges and cooperation with countries around the world. China will continue to actively participate in the evolution and construction of the global governance system. China will contribute more Chinese wisdom, Chinese solutions and Chinese strength to the world.”*<sup>45</sup>

One strong example of China’s growing and formidable international influence is the ambitious One Belt One Road project; a massive, strategic initiative set on connecting China with over 60 countries and in excess of 4 billion people, through the use of a colossal network of railways, highways, ports, and pipelines (Summers, 2015). It was argued that all Chinese firms – including SOEs – are under instruction to pursue and undertake cross-border M&As related to this initiative. That is, if they wish for their M&A applications to be approved by state-regulated bodies.

This project will mark a new era of multilateral cooperation and globalization for China, and is arguably a concrete manifestation of the “Chinese dream” of rejuvenation. The One Belt One Road program is viewed as China’s ascendance onto the global stage, economically, politically and strategically (Yu, 2017). Ferdinand (2016) pointed out that underpinning the One Belt One Road initiative is China’s growing self-confidence as a result of its economic achievements. Supporting this is Nordin & Weissmann (2018) who argue that China’s growing international influence stems from the longevity of their economic growth. Resultantly, this draws others to China, seeking to understand their world-view and share in the gains of their continued economic success (Kaufman, 2010).

China’s growing international prominence is further underscored by their increased activity in foreign policy. Yu (2017) asserts that China’s increase in national pride as a result of China’s emergence as a global power has led China’s stance on foreign policy to change substantially. It is argued that China has now become more proactive, assertive, and globally driven; therefore further aiding the internationalization initiatives of SOEs. For example, China has upgraded various regional cooperation mechanisms to facilitate greater economic integration. This

---

<sup>45</sup> Xinhua, *Speech delivered by Xi Jinping at the first session of the 13<sup>th</sup> NPC*, <<https://www.chinadailyhk.com/articles/184/187/127/1521628772832.html>>, 2018.

includes the re-negotiation of the China-ASEAN (10+1) trade agreement in 2016 to support the One Belt One Road initiative.

*“...suggestions on the commercial cooperation between the two sides: 1) Deepen the connection of strategy on development, and build the “One Belt and One Road” hand in hand. The Chinese side will follow Xi Jinping’s principle of discussing together, building together and sharing together, not a solo by China, but a choir with other countries. The initiative of “One Belt One Road” should be docked with other ASEAN countries to promote the programs in other areas, enhance the mutual beneficial and win-win cooperation in depth.”*<sup>46</sup>

Many nations have vocalized concerns that the Belt and Road initiative could likely tip the global balance of power in favor of the Chinese (Prasad, 2018). For example, upon the announcement of the One Belt One Road initiative, 27 out of 28 EU ambassadors signed a report criticizing the project, as contradictions with the EU's agenda of liberalizing free trade were identified (Prasad, 2018). However, both participants and scholars have argued that the rejuvenation of China – and related projects such as One Belt One Road – are more about regaining lost pride and not, about attaining new power or greater influence over other nations. That is, to the Chinese, national rejuvenation is about restoring the lost status quo and reinstating China’s rightful place in the world (Gries et al., 2011; Li, 2017).

Consequently, China has been working hard to appear less like a revisionist power and more like a global leader. China has stated that the One Belt One Road program is less about the Chinese dominating international infrastructure and trading routes, and more about increasing global cooperation and economic integration (Swaine, 2015). In support of the One Belt and One Road program, China has established new innovative institutions – namely the Asian Infrastructure Investment Bank (AIIB). Headquartered in Beijing, the AIIB was designed to accelerate Asian infrastructure development, whilst simultaneously cultivating strong bilateral trade integration (Elek, 2014). To date, the AIIB has 57 regional members and is hailed as an important development for sustainable infrastructure in Asia (AIIB, 2018). At the same time, the AIIB also underscores China’s growing regional influence in Asia, and highlights China’s greater push for global power.

---

<sup>46</sup> China FTA Network MOFCOM. *China – ASEAN FTA*,  
<[http://fta.mofcom.gov.cn/enarticle/chinadmen/endmnews/201608/33077\\_1.html](http://fta.mofcom.gov.cn/enarticle/chinadmen/endmnews/201608/33077_1.html)>, 2018.



## ***(2) Subcategory 2.2 Greater resources security for China***

It is argued that China's quest for greater resource security and increased self-sufficiency is also a further indication of the state-driven formal desire for national rejuvenation. It is highlighted that the Chinese government is seeking to secure a position that would allow them to be less reliant on critical trade partners. China wants to avoid being in a position where another country can have leverage on them that they cannot mitigate, especially, in areas concerning the security of raw materials, energy, technology, and trade flow security through the use of M&As. It is indicative that these resources are important to China, as without these resources, China will struggle to become fully self-sustaining and independent. This vision of independence and increased domestic security remains a central goal for the Chinese government and fundamental to the Chinese dream (Nordin & Weissmann, 2018).

Acquiring natural resources has been considered a priority and a critical agenda for China for a number of decades. China simply does not have enough resources to support the Chinese people. According to The World Bank (2018), since the initiation of market reforms in 1978, China has lifted 800 million people out of poverty. Fuelled with an accelerating urban population, the largest middle-income class in the world, it is therefore expected that domestic consumption will increase. Collectively, it furthers the necessity of securing enough resources to satisfy and sustain domestic demand (Larson, 2013). It is apparent that with China's more significant experience in the international M&A field, SOEs are now specifically pursuing M&A deals that will intrinsically benefit the Chinese population. This includes securing a range of natural resources of which China is not self-sufficient in. As seen in Chapter 2, acquisitions in natural resources by SOEs account for 27% of the total number of observed deals from 2002 – 2016. Such acquisitions include, oil (i.e. China Petroleum & Chemical Corporation's acquisition of Russia's Udmurtneft OAO for \$3.5 billion in 2006), coal reserves (i.e. Yanzhou Coal Mining Co Ltd's acquisition of Australia's Felix Resources for \$2.9 billion in 2009), and grains (i.e. ChemChina acquiring Syngenta for \$43 billion in 2017). The significance of the 2017 ChemChina-Syngenta deal was consistently pointed out throughout this research. As China's largest M&A deal in history (\$43 billion), it clearly highlights how food security continues to be a priority for China.

The state has also emphasized how there are only a finite amount of resources available in China. Addressed by the state council in 2014, a strategy was issued with an action plan for China's energy development. The premise of the strategy was to lessen China's dependence on other countries with regards to energy provision.

*"On the basis of domestic resources, the energy supply capacity building shall be strengthened... keep promoting the capacity of independent control over energy and lessen the over-reliance on foreign countries for oil."*<sup>47</sup>

Thus the Chinese have to look outwards and use cross-border M&A to realize the strategy for resource security. It is argued that the acquisitions are made to primarily acquire resources that will assist in security provisions for the Chinese population and assist the transition towards greater self-sufficiency. Collectively these acquisitions will help propel the Chinese towards achieving sustainability and self-sufficiency. By acquiring and controlling more critical resources, eventually, China could direct enough of the global supply so as to attain a higher level of command over economic affairs (Nordin & Weissmann, 2018)

Moreover, it is pointed out that, relying on other countries for technology-related resources is an area the Chinese government is actively striving to change. It has been argued that the underlying technology in two-thirds of China's technology exports is in fact produced by foreign companies (Wübbeke et al., 2016). To add to this, China's most prominent single line import is not, in fact crude oil, but semiconductor chips - China's semiconductor imports in 2017 were worth \$200 billion (Cadell, 2018). China's dependence on foreign technology was critically exposed by the Chinese telecommunication giant ZTE. In 2018 the United States effectively banned ZTE from the US market for seven years and ordered them to pay a USD \$1 billion fine for violating US trade laws (Klein, 2018). This ban illustrated the extent of China's dependence on foreign technology and also how quickly a seemingly powerful Chinese multinational could be shut down due to external forces beyond their control. Thus, it can also be argued that it is critical for M&A to be

---

<sup>47</sup> State Council. *Notice of the General Office of the State Council on Issuing the Program of Action for the Energy Development Strategy (2014-2020)*, <<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=5f8e90c006bb1fa8bdfb&lib=law>>, 2014.

used to secure supplies through diversification and thereby making China less reliant on importing key resources from a single source.

China's aggressive technology catch up strategy for greater resources is illustrated in Chapter 2, the observed cross-border M&As by SOEs in the manufacturing industry accounted for 49.6% of the total number of deals. Of these manufacturing deals, it was noted that a significant portion of these acquisitions was of high-technological value. Such as, the manufacturing of special purpose equipment (i.e. Zhuzhu CSR Times' acquisition of UK's Specialist Machine Development for \$178 million in 2015); manufacturing of electric components (i.e. Weichai Power's acquisition of Germany's Linde Hydraulics for \$358 million in 2012); and manufacturing of air and spacecraft related machinery (i.e. AVIC's acquisition of US Hilite International for \$2.8 billion in 2014). The announcement of the Made in China 2025 project which aims to usher in a technologically upgraded Chinese economy focused on implementing intelligent high-technology manufacturing; has driven significant efforts from the Chinese to work towards state plans (Wübbecke et al., 2016).

## **6.3 Discussion of research question 2**

“How does the Chinese-style institutionalization process facilitate the unique characteristics of cross-border M&A activities by Chinese state owned enterprises (SOEs)?”

### **6.3.1 Research area 3: The formal institutionalization of the informal belief at the national level**

#### **6.3.1.1 Theoretical category 3: Government led M&A**

This research found that the state is highly involved in the cross-border M&A process to ensure that cross-border deals are in-line with state plans. State plans themselves are reflections of China's values and beliefs, formally written as specific objectives, guidelines, and agendas for national development. Therefore, it is evident from the state plans, that the informal institutional beliefs have been institutionalized

by the formal institution. By outlining clearly defined national goals specifically designed for China's rejuvenation, this ensures that all organizations perform cross-border M&As within the boundaries of the state mandate; and thus the objective of national rejuvenation is actively pursued. This further highlights a China-specific style of management that is indicative of a formal institutional change originating from the top and is directed down.

Further supporting the above is the specific guided direction of cross-border M&As. As per Table 2.2 of Chapter 2, the state council releases a catalogue which acts as a guide on the type of foreign investments permitted. The catalogue is for the reference of all Chinese companies, both state-owned and private (Cicenia, 2017). Industries are divided into three categories: 'encouraged,' 'restricted,' and 'prohibited.'<sup>48</sup> Encouraged industries will usually receive preferential treatment including subsidies and grants. Investments in restricted industries are subject to the review of the National Development Reform Commission (NDRC) and Ministry of Commerce (MOFCOM). The prohibited list is firmly off limits for foreign investment (State Council, 2017).

This overseas investment catalogue came about following excessive spending by Chinese enterprises on deals that were deemed irrational, or not directly beneficial to China. The excessive spending created significant concern regarding the considerable corporate debt used to fund these acquisitions and the potential this had to destabilize the economy (Sui-Lee, 2017). As a response, the state council issued a statement at the end of 2016 warning companies that they would be punished for violating foreign investment rules by acquiring irrational overseas assets. These investments are viewed as not in accordance with the macro-control policies. Therefore, the government introduced safeguards to protect China against the risks associated with such irrational purchases (State Council, 2017). The state council has explicitly instructed the big four banks to be vigilant with their credit lines, and to

---

<sup>48</sup> State Council, *Notice of the General Office of the State Council on Forwarding the Guiding Opinions of NDRC, MOFCOM, PBOC, and MFA on Further Guiding and Regulating the Direction of Outbound Investments*, <[http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)>, 2017.

scrutinize credit requests from SOEs.<sup>49</sup> Banks are instructed to closely examine enterprises, to mitigate any risks, and to reduce the leverage on China's financial sector (Mitchell, 2017).

The stringent vetting on all M&A deals as ordered by the central government is indicative of the shift in China's mentality of how SOEs should now pursue overseas M&As. Ultimately the Communist party guides the state council, whom in turn governs State-owned assets supervision and administration commission (SASAC). SASAC instructs SOEs to invest on behalf of the Chinese people. It is highlighted that, in using public money, Chinese SOEs are required to assess an investment on the basis of what it might bring to the development of China. This outlook is supported in how the state has viewed M&As for other purposes such as acquisitions in overseas trophy assets. These types of deals are now strictly forbidden and are treated as putting the financial institutions at unnecessary risk, and thus treated as a disservice to the Chinese people (State Council, 2017).

### ***(1) Subcategory 3.1 Selective M&A agenda based on the state mandate***

This research puts forward, that recent tone of state plans – particularly the emphasis on national rejuvenation – has had a direct impact on the direction of M&A investments made by Chinese SOEs. It can be observed that traditional SOE investments such as those seen in industrial companies have now instead been directed to more high-tech companies. This links in with preceding point highlighting recent Chinese governmental initiatives, such as Made in China 2025, and One Belt One Road – both of which assert priority on technology and infrastructure acquisitions. Technology and infrastructure are also featured heavily in the 13<sup>th</sup> five-year plan (FYP), in addition to being listed under the 'encouraged' category in the state catalogue for overseas investments.

### ***Categories Encouraged***<sup>50</sup>

---

<sup>49</sup> China's big four banks are: Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China.

<sup>50</sup> State Council, *Notice of the General Office of the State Council on Forwarding the Guiding Opinions of NDRC, MOFCOM, PBOC and MFA on Further Guiding and Regulating the Direction of*

*(1) “Overseas infrastructure investment that is conducive to the construction of the ‘Belt and Road’ and connections with neighbouring infrastructure”*

*(2) “Investment and cooperation with high-tech and advanced manufacturing enterprises and to encourage R&D centers abroad”*

Pursuing acquisitions that align with state objectives, as noted above, directly results in increased likelihood of party approval. In addition, this also provides SOEs with favorable government financing, swifter approval, and increased support from related state agencies. The preceding points are indicative of China’s increased selectivity and caution with regards to M&A transaction approval. This trend is also the result of a number of past, poor performing M&A deals, further contributing to China’s more selective approach. Supported by Capron & Mitchell (2012), it was pointed out that most of China’s early acquisitions did not work out, with this poor track record tainting China’s reputation and adding to growing skepticism from western counterparties. For example, SOE oil company China National Offshore Oil Corporation’s (CNOOC) acquisition of Canada’s Nexen in 2013 for USD \$15 billion. It was speculated that CNOOC paid a 60% premium only to suffer a slump in oil prices, a pipeline spill, and mass layoffs including senior Nexen executives (Kynge & Mitchell, 2016). Indeed, following the strategy where SOEs primarily sought international exposure had seemingly exhausted a valuable supply of state money (Yao, 2009).

As a result of past experiences, this research found that most recent acquisitions have a more of a long-term strategy. China has significantly developed their strategic thinking behind cross-border M&As and SOEs seem to be carefully selecting opportunities as per state mandates. The acquisition of Switzerland’s Syngenta by ChemChina for \$43 billion in 2018 is evident of this. Syngenta is a world leader in crop protection products and is also a leader in the production of seeds. Thus, the Syngenta acquisition is indicative of China’s national strategy in securing a sustainable and safe food supply for China’s growing population (Tsang, 2017). It is clear that Chinese SOEs are now far more experienced and also, are critically

---

*Outbound Investments*, <[http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)>, 2017.

analyzing deals before investing. Moreover, with the tightening of policies towards cross-border M&As and the stringent screening of M&A applications, the Chinese government's cautious approach to foreign currency allocation also became clear (Baker McKenzie, 2017). This means that any approved M&A deals have not only been well thought out but also, have a particular purpose. It is argued that, as SOEs and M&A deals themselves are being intensely vetted to be in line with the state plans; it is therefore apparent, that if an SOE has been given clearance by the state, it is because the target is considered to be specifically beneficial and strategic to China. In every stage of the M&A process, every deal has to be scrutinized to determine whether its purpose and is in-line with the state's objectives (Alderman, 2018).

However, simultaneously, SOEs are also subject to considerable scrutiny by their overseas counterparties, making the task of completing cross-border M&As more challenging for SOEs. For example, China General Nuclear's (CGN) negotiations with EDF France were ultimately deemed to be in breach merger thresholds, by the European Commission. Therefore, this deal required further EU merger clearance and added an extra layer of complexity, further complicating the deal. Ultimately it was ruled that CGN was considered not to be independent from the SASAC (Timperley, 2018). Subsequently and as result of bureaucratic, long-winded processes, a number of overseas bodies have blocked Chinese deals (Chazan, 2018).

## ***(2) Subcategory 3.2 The significance of state agencies***

This research found that the central government can significantly influence cross-border M&A activity because the state has the ultimate decision making power and control. Though the state council has decentralized its power and does not hold power directly, it has ultimately created various state agencies that have been allocated responsibility for SOEs including, responsibility for overseeing and approving outbound M&A deals (as per Chapter 3, Table 3.1 & 3.2). This is also supported by Sauvnt & Chen (2014) who documented the cumbersome and unclear government regulatory approval system. Sauvnt & Chen (2014) also illustrated the strong and unavoidable administrative control that that must be dealt within in order to pursue overseas investments. Key administrative agencies mentioned throughout the interviews were, SASAC, MOFCOM, NDRC, and State Administration for

Foreign Exchange (SAFE). The importance of these agencies in governing and permitting overseas transactions was also highlighted in the research of Luo, Xue, & Han (2010); Sauviant & Chen (2014); Jones & Zou (2017).

All SOEs need to receive approval from NDRC and MOFCOM before they can undertake an overseas M&A project (Luo et al., 2010). Moreover, SOEs who want to pursue a target under any state restricted categories will need to also obtain approval from SASAC (Sauviant & Chen, 2014). All investments going overseas that exceed \$300 million require further approval by the NDRC and state council (Jones & Zou, 2017). As all national SOEs are fundamentally owned and managed by SASAC; thus SASAC holds the ultimate control on what the SOE can or cannot do. This is also supported by Robins (2013) who pointed out that SASAC has the ability to exercise the final authority over strategy and investment decisions. For this reason, SASAC is keen to ensure that acquisitions are in line with China's economic policies. Consequently, if SASAC permits the SOE to pursue a cross-border target, the other state agencies will also follow suit. Likewise, if SASAC does not approve the deal, there is no way the SOEs can carry out outbound deals.

In January 2017 China's central bank announced its foreign reserves slipped to USD \$2.99 trillion from a high of nearly USD \$4 trillion in 2014 (Bradsher, 2017). Consequently, this triggered the state to tighten control of foreign currency transfers out of China. SASAC ordered the state agencies to be extra vigilant and issued new SASAC guidelines on overseas investments. Examples of the new SASAC guidelines included: Further application processes so that the state can determine the economic benefits that will come out of the deal. Extra scrutiny and specific approval measures on all transactions over USD \$1billion for transactions that fall outside of the buyer's core business area (Baker McKenzie, 2017). All acquisitions over USD \$100 million will need to be examined and will require approval (Pan, 2018). Transactions over \$300 million will require a confirmation letter from NDRC before a binding offer can be made (Wildau, 2016). It is speculated that these new measures on outbound M&A are indicative that SASAC will now have a more significant say in the decision-making process of SOEs.



Critically one fundamental ways that the state controls cross-border M&As is via the SAFE agency. The state council ordered the SAFE agency to implement strict capital control restrictions at the end of 2016 (Choudhury, 2017).

*“The SAFE shall, in accordance with the "Regulations on the Administration of Foreign Exchanges of the People's Republic of China" and the "Regulations on Foreign Exchange Administration of Foreign Investors in Domestic Investors" and other relevant regulations, strengthen the guidance on the compliance of banks with foreign exchange enterprises for the settlement and use of capital of foreign-invested enterprises...includes requesting relevant business entities to provide written explanations and business materials, interviewing responsible persons, on-site inspection or copying of relevant information of business entities, and reporting violations.”*<sup>51</sup>

As the renminbi (RMB) is not freely traded on the open market, all Chinese companies (unless they can access foreign currency offshore) will have to navigate the SAFE agency. The SAFE agency is responsible for governing China's foreign exchange activities and managing the state foreign exchange reserves (SAFE, 2008). This means that unless Chinese companies can get SAFE agency approval, M&A deals will simply not happen. Therefore, the state is also able to further influence cross-border M&A activity through the accessibility of foreign currency.

### **6.3.2 Research area 4: Interaction between the national level and the organizational level in the formal institution**

#### **6.3.2.1 Theoretical category 4: The obligation to fulfill state plans with autonomy**

This research argues that the state views the role of SOEs as instrumental to China's rejuvenation. Supporting the importance of SOEs to the party, Li Rongrong the current chairman and party secretary of SASAC said in 2009: “no matter how the reform proceeds, the leading role of state-owned enterprise in the national economy will never change.” This research found that SOEs are viewed as tools of the Chinese state and are purposefully used to execute the state's strategic plans. In other words, the central state will outline the blueprint for national rejuvenation through

---

<sup>51</sup> State Administration of Foreign Exchange. *Notice of the State Administration of Foreign Exchange on Reforming the Management Method of Foreign Exchange Capital Settlement of Foreign-invested Enterprises*, <<https://www.safe.gov.cn/safe/2015/0408/5549.html>>. 2016.

state plans, and then in order to the fulfill the overarching long-term plan, targets are set for SOEs in a top-down fashion by the central state. As the major shareholder of the SOEs, the state requires that these targets fulfilled by the SOEs. Evidently. In the National Party Construction Work Conference of State-Owned Enterprises in 2016, the state addressed how it must be insisted that SOEs implement state's strategies.

*"The party leadership and building the role of the party are the root and soul for state-owned enterprises.... The party's leadership in state-owned enterprises is a major political principle, and that principle must be insisted on... state-owned enterprises should also become important forces to implement decisions of the CPC Central Committee, the new development concept, major strategies such as the "going out" strategies and the Belt and Road Initiative, as well as to enhance overall national power, economic and social development and people's wellbeing." <sup>52</sup>*

However, in saying this, it was pointed out by participants that SOEs are relatively autonomous. Once the directives from the Chinese government are received by the SOEs, the SOEs can act freely to pursue the targets in whatever manner they see as reasonable. The autonomy is extended as long as the SOE business activities are based within the parameters that are guided by the state plan. The unique relationship between state and SOE is also supported by Jones & Zou, (2017). It was pointed out that to attain economic growth whilst maintaining political stability, the Communist party follows a Chinese-style regulatory system. Robins (2013) and Jones & Zou (2017) states this regulatory system issues guidelines to steer public and private actors towards the state's desired outcomes. However, these guidelines are often vague and at times open to interpretation, as the Chinese economy is still transitional and often uses an experimental approach to reform (Perkins, 2018).

Concerning the effect of the state influence in M&A, this research found that the central government's involvement extends mostly to setting the policies, regulations and, initiatives that guide Chinese organizations. This is to ensure that cross-border deals are safeguarded against risks, while also ensuring that transactions are in accordance with state mandates. This means projects and deliverables are limited to a range that the SOE can act within. Once these guidelines have been laid out, the boundaries in which the SOE can operate within are established. Thus it is argued

---

<sup>52</sup> Xinhua, Xi Stresses CCP leadership of state-owned enterprises, <[http://www.xinhuanet.com/english/2016-10/11/c\\_135746608.htm](http://www.xinhuanet.com/english/2016-10/11/c_135746608.htm)>, 2016.

that when SOEs pursue international targets, it is not an attempt to colonize a given nation or impose Chinese values; rather the fulfillment of state mandates laid out in the regulatory framework (Jones & Zou, 2017).

To build on the topic of SOE autonomy within the Chinese M&A environment, the following additional points can be made. Firstly, regarding M&A target selection, this will stem from the SOE itself. It was found that the central government does not actively seek M&A targets for the SOEs because they do not have the resources to screen nor allocate M&A targets for the SOE to pursue. Moreover, the choice to conduct a cross-border M&A is also down to the SOEs. Therefore, the SOEs have a significant degree of autonomy as long as they follow the guidelines set by the central state. However, it is critical that the central government remain informed as to what the SOEs plans are. Participants highlighted that the SOE has to construct a report at the beginning of the year that details all aspects of their operations to SASAC. Included within this report are any details of overseas investment plans – including cross-border M&As. Once SASAC has approved the plans as per the SOE report, the SOE will not need any subsequent approval or registration with SASAC. Participants also pointed out that by following the state's guidelines, any SOE M&As will be approved with minimal hassle. SOEs are acutely aware to inform SASAC concerning the pursuit of assigned state targets. Supporting this is Leutert (2018) who argues this is why SOEs were paperwork heavy - because SOEs managers are keen to keep Beijing informed at all times. As long as the guidelines are adhered to, and SOEs consistently notify the state, then the central government will not be actively involved with SOE affairs.

#### ***(1) Subcategory 4.1 Social vs. Profit-driven deals***

This research argued that as an outcome of SOEs being representatives of the government and an organizational agent to the state, SOEs consequently have a complicated dual responsibility to the nation. Firstly, it is claimed that fundamentally SOEs were created by the central government to be used as tools to provide a service, and to ensure the implementation of national policies (Brødsgaard et al., 2017). Supporting this, was one participant's view that "the central government promoted the Chinese economy and developed the country through SOEs." As SOEs are quasi-

government corporations, they are responsible for executing plans that have been set by the central government (Li & Brødsgaard, 2013). Thus, essentially it is argued that depending on what the central government's plans, it will subsequently influence SOE objectives, therefore affecting the rationale for cross-border M&As. This is further supported by the central state, where according to the 13<sup>th</sup> FYP, SOEs will be divided into two categories: 1) commercial profit entities where the main objectives of these SOEs are to increase state assets and boost the economy; and 2) public welfare entities which will provide public goods and services.

*“The main aims of commercial SOEs will be to vitalize the state-owned sector, improve the efficacy of state capital, and maintain or increase the value of state-owned assets. To achieve these aims, they should engage in lawful and autonomous production and business operations under the principle of the survival of the fittest. The main aims of public-benefit SOEs will be to ensure people's wellbeing, serve society, and provide public goods and services.”*<sup>53</sup>

It is indicative that the state plan is influential in determining the type of acquisitions that SOEs should make – that is, whether acquisitions by SOEs should be socially driven or profit driven. For example, in the 11<sup>th</sup> FYP, SOEs were encouraged to be economically viable enough to sustain themselves so that their everyday operations were not on the bankroll of local governments or state banks (Wildau, 2016). As per the 11<sup>th</sup> FYP, other than the GDP quantifiable target of 7.5%, the plan did not name any specific high priority sectors to be developed. The plan did, however, focus on M&A as an essential mode of OFDI in order for China to gain more exposure to international markets (Worldbank, 2009). Resultantly, SOEs pursued cross-border M&A targets in various diverse sectors in a bid to fulfill the state's GDP quota. Participants expressed how during this period, meeting SOE profitability targets was of especially high importance. SOE would be assigned aggressive profit-driven targets; wherein the only viable source to meet the assigned aggressive performance targets was to conduct a lucrative cross-border M&As i.e., acquiring an existing profitable cross-border target.

---

<sup>53</sup> National Development and Reform Commission (NDRC). *The 13th Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020)*, <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>, 2016.

*“... they (the state) would say I would like to see the SOE revenue grow 50% or I like to see the revenue double. Or they would say I would like to see 10 or 20% of your revenue come from international sources. So it’s really hard for a company to grow a business that fast so you’ve got to buy and acquire something...”*

*(Participant J4, Shanghai, M&A brokerage)*

Having said this, currently in the 13<sup>th</sup> FYP, the social aspect of SOEs has now returned, to a greater degree than before. The tone and prerogative of SOEs are now viewed as playing the role of workshops collaborating as units to support the big national "factory" (Li & Brødsgaard, 2013). For example, encouraged acquisitions of coal mines that are essential to meet the growing energy demands of the Chinese population. As per Chapter 2, several large cross-border acquisitions of natural resource mines by SOEs were observed and reflected this aspect. For example, the acquisition of Australia’s Felix Resources for \$2.9 billion in 2009 by Yanzhou Coal Mining Co Ltd; and Anglo American (Brazil) for \$1.7 billion in 2016 by China Molybdenum.

However, at the same time, the social obligations of SOEs greatly hinder their profitability, particularly in the case of natural resources. The acquisitions of these resources are a fundamental component of many other SOE industries. For example, the dependency on coal is needed for steel and chemical manufacturing. Thus the price of coal is influenced by the state and, kept artificially low as a subsidy to such SOEs. Resultantly, these coal-related SOEs are unable to sell coal domestically at market rates.

*"Of course for the government they want them to make a profit, if they can't make a profit it's a financial burden for the government and for all the people in China. But we can see the problem for the national SOEs, they also need to take responsibility like social responsibility and other things. I can give you an example of coal price, they are a state-owned company and buy many mines overseas, if they sell coal at the spot market price, then they will get a much higher price, but they are an SOE and the government does not let them to sell the coal at the market price because ... if the coal price too high, then the factories will have too high price to produce steel or cement so they need to control the coal price, because this is the fundamental price for many products so they need to control many factors and then they will decide the price. This is only one example, but you can apply this to all the SOEs companies in China."*

*(Participant L1, Shanghai, M&A consultant)*

Other participants have pointed out that due to social obligations to secure resources for the domestic market, China does not make the best overseas M&A deals. An example was given by a participant was how China's initial lack of international M&A experience, resulted in the acquisition of a mine that remains un-operational several years on; this is not uncommon, with Robins (2013) pointing out that these acquisitions should not be viewed as "failures." This is because SOEs do not work under typical timeframes. With the substantial backing of the central government, these acquisitions are treated as long-term strategic deals that need to be undertaken in the national interest (Zhang, Morse, & Kambhamptati, 2014). As China does not have sufficient raw materials to meet domestic demand, these acquisitions are less profit-driven; and more focused on self-sufficiency and decreasing dependency on trade partners.

***(2) Subcategory 4.2 The SOE paradox: Undeniable influence yet a challenge to engage***

This research found that SOEs are faced with a paradox when it comes to their global reputation. Firstly, they are greatly respected by their global peers and in the international cross-border M&A market. It is argued that they are respected for their size and the political power that these SOEs hold as a result of the state connections. National level SOEs are organizations that have a very strong presence both domestically and internationally. According to the Global 500 (2018) ranking of the top 500 organizations in the world that is compiled and published annually by Fortune, the following could be observed:

- Three Chinese SOEs are within the top 5 world's largest organizations in terms of revenue. They are: State Grid (ranked 2<sup>nd</sup> with revenue of \$348,903 million), Sinopec (ranked 3<sup>rd</sup> with revenue of \$326,953 million), and China national petroleum corporation (CNPC) (ranked 4<sup>th</sup> with revenue of \$326,008 million)
- Seven Chinese SOEs are within the top 20 world's largest organizations in terms of employees. Including the big four state banks. SOEs include: CNPC (ranked 2<sup>nd</sup> with 1,470,193 employees), State Grid (ranked 3<sup>rd</sup> with 913, 546

employees), Sinopec (ranked 5<sup>th</sup> with 667,793 employees), Agricultural Bank of China (ranked 8<sup>th</sup> with 491,578 employees), ICBC (ranked 10<sup>th</sup> with 453,048 employees), China Construction Bank (ranked 13<sup>th</sup> with 370,415 employees), Bank of China (ranked 18<sup>th</sup> 311,133 employees).

Participants argued that SOEs are viewed as essentially extremely large state-backed organizations to the point that when dealing with an SOE, it is effectively akin to dealing with a government representative and member of the Communist party. This is supported by Yu (2014) who highlighted that SOEs are not just treated as a pillar of the Chinese economy but also a critical component of the communist party. The party's continuing influence on M&As also means SOEs have access to a considerable amount of resources. Particularly when it comes to bidding on M&A deals. Due to the availability of favorable financing, SOEs are able to adopt a more aggressive bidding strategy (Hope et al., 2011). It was found that Chinese SOEs have a reputation of overpaying for M&A targets, primarily because of their ability to attain substantial cheap financing. This has meant overseas targets in some cases specifically seek to be acquired Chinese SOEs due to their 'reputation' for overpaying. This is supported by Chatzkel & Ng (2013) who agrees that SOEs receive significant support from the central authorities and mainly financial support from the state banks. The same theme was echoed by Nolan (2010), an account was given of an M&A deal wherein a Chinese state bank was quoted asking the SOE *"how much do you want? \$10 billion, \$20 billion?"* When the Chinese SOE Chinalco acquired a 12% stake of Rio Tinto in 2009, Chinalco at the time was close to bankruptcy. Despite this, the big four Chinese state banks agreed to lend the SOE \$21 billion - at a very low-interest rate (Robins, 2013). This type of lending is only possible and unique to the Chinese context. Chinese state banks are SOEs and are treated as a division of the central government, and the lending is considered imperative for China to carry out its long-term development plans (Yao, 2009). Even the former president at the Bank of China Li Lihui explained that the party had an essential role in the bank's business strategies because displaying loyalty to the state was very important (Li & Brødsgaard, 2013).

As a result of the aggressive acquisition strategy, resulting from state support and backing of the central government, Chinese SOEs have been able to increase their

global footprint in many key industries. Particularly in the energy sector, SOEs such as Sinopec, State Grid, and CNPC have certainly obtained notable global influence.

*“Everyone wants the Chinese to be part of the conversation, they are taken incredibly seriously because they are massive and they are growing. They are just huge companies especially in the energy sector. CNOOC, CNCP, Sinopec, all these companies are huge conglomerates and they acquire a lot and spend a lot of money. For the other oil companies like ExxonMobil, it’s the SOEs are who they want to meet.”*

*(Participant J2, Geneva, M&A consultant)*

Thus on the one hand, the state influence has allowed SOEs to obtain increased global importance and international respect. However, on the other hand, the top-down bureaucratic guarantee on the M&A process has also resulted in SOEs being characterized as challenging and difficult to work with. In the case of the M&A process, participants highlighted the necessity of obtaining state approval at every stage of the M&A process. It was argued that the embedded nature of the state in the M&A process has made the process far too onerous and unnecessarily difficult (Sauvant & Chen, 2014). Moreover, the lack of transparency and bureaucratic hurdles involved often results in considerable uncertainty during the cross-border deals. The need to obtain approval from various state agencies considerably delays the M&A process to the extent that this can directly derail negotiations and breaks deals. The ongoing compulsory approval required by SOEs from state agencies illustrates the constrained autonomy that SOEs have, and moreover highlights the inefficient dynamics between the state and the SOEs during the cross-border M&A process.

*“So some Chinese companies they can begin the process of a M&A but in the middle of the process they disappear, they don’t answer any calls or don’t send a non-binding offer so people are a little skeptical of the acquisitions by Chinese companies”*

*(Participant M2, Santiago, M&A advisory)*



### **6.3.3 Research area 5: Interaction between the national level and the individual level in the formal institution:**

#### **6.3.3.1 Theoretical category 5: Strategically appointed managers by state**

This research found that there are very close ties between SOEs and the state party. It was highlighted that senior SOE managers are strategically placed and allocated by SASAC whilst the chairman/SOE leader is assigned by the state party. As per the SASAC website, it is seen that the number of centrally control SOEs, i.e., the national SOEs that are under direct management by SASAC is a total of 96 (SASAC, 2018). It was pointed out that, as the most significant shareholder of SOEs, SASAC has to select all senior managers/ key personnel of SOEs (at least those ranked at the department level). However, leaders/top-level executives and the chairman of an SOE are selected by the Organization Department of the Communist Party of China. This is a Central Committee that controls the staffing positions within the party and has the power to veto the appointees made by SASAC (Brødsgaard et al., 2017). From this, it is evident SOE senior managers and chairpersons of the national SOEs are under considerable political control. Thus, it is argued that even at the individual level, the behavior of SOEs leaders are highly influenced by the state and consequently SOEs leaders acting as agents of the state.

*“SASAC appoints and removes the top executives of the supervised enterprises, and evaluates their performances through legal procedures. It either grants rewards or inflicts penalties based on their performance, establishes a corporate executives selection system in accordance with the requirements of the socialist market economy system, and improve incentives and restraints systems for corporate management.”*<sup>54</sup>

Leutert (2018) stated that the party governs the top leaders of the largest and most strategic SOEs, i.e., the backbone SOEs. This research found that the state party is involved in this process because it is fundamental for the party to be able to ensure that their principles are implemented. Resultantly, this further ensures that all cross-border M&As are in line and supportive of state plans. The implementation of the

---

<sup>54</sup> State-owned Assets Supervision and Administration Commission of the State Council (SASAC). SASAC is an institution directly under the management of the state council, its responsibilities include, <[http://en.sasac.gov.cn/2018/07/17/c\\_7.htm](http://en.sasac.gov.cn/2018/07/17/c_7.htm)>, 2018.

state mandate can only be guaranteed if the party selects the best possible candidates to be placed in key positions within SOEs. Robins (2013) argues that by specifically appointing key people, the party can therefore monitor and supervise SOEs. This theme was also echoed by participants who explained that the appointment of SOE leadership positions ensures that the execution of national policies, development plans, and resultant cross-border M&As fall in-line with state wishes. From this, it is clear that SOEs in China differ from SOEs in other countries. In China, the role of the state is not just that of an owner, but the state is also responsible for ensuring that SOEs follow and carry out top-down commands.

Jones & Zou (2017) highlighted that the reason for the Organization Department appointing the national level SOEs' top management, is because these positions are treated as stepping-stones to higher political positions. Knowing this, SOE leaders are therefore incentivized to comply with the policies set out by the party leaders (Thomas & Price, 2016). Moreover, as the state council has handpicked and specifically placed the individual into the leadership position, it would reflect poorly on the state and the party if an SOE manager fails to perform. Therefore, there is a lot at stake to ensure the best candidate (i.e., an ally to the political faction best placed to comply with state mandates) is selected (Choi, 2012). This research also found that despite political appointments, the vast majority of C-level managers of SOEs are all competent individuals. It was also highlighted that despite the specific political appointment, the majority of SOE chairmen have built their entire careers working their way up through SOEs and are "state-owned industry careerists" (Leuter, 2018). Therefore, it is argued that these SOE managers/ leaders are politically shrewd, and equally are very capable of conducting successful cross-border M&As fully complicit with national strategies and party objectives.

### ***(1) Subcategory 5.1 Cross-border M&A for career leverage***

This research also expressed that SOE managers are incentivized to be ambitious due to the potential political rewards. They have an acute awareness that the elite party members will determine their career advancements, thus further highlighting the top-down influence. The promotion of key personnel can be attributed to the fact that SOE managers are politically astute externally and business savvy internally (Li &

Brødsgaard, 2013). Therefore, SOE managers are keen to partake in cross-border M&A because it is an opportunity for the SOE manager to increase SOE profitability, and to exhibit their ability to the state party. This is supported by Yang, Wang, & Nie (2013) and Thomas & Price (2016) who illustrated that despite the specific political appointment, SOE top-level executives are motivated to encourage the best possible financial performance from their SOE; and improve economic performance, i.e., growth of operating revenue highly increases the chance of managerial promotion.

It is argued by this research that once managers reach leadership level, they will become increasingly more ambitious. Using cross-border M&As is in most cases one of the most effective methods for SOE managers to have leverage to further their political careers. It was found that for a political promotion, it comes down to the level of ambition of the chairman/number one/party secretary of the SOE. If the individual has high political aspirations, then the individual will look to undertake cross-border M&As to both increase their SOE economic performance, and also, create a successful track record to enhance their political reputation. In this case, the motivation for undertaking an M&A and driving profitable performance is driven by personal gain, i.e. political ambition. An example of this is former Sinopec chairman Su Shulin. Su was Sinopec's chairman from 2007 – 2011; under Su's leadership, Sinopec undertook several overseas acquisitions including the high profile acquisitions of Swiss-based Addax Petroleum in 2009 for \$ 7.24 billion (Hagett, 2009). At that time, it was the largest ever cross-border oil related acquisition by China. The rationale for the acquisition was to secure land in West Africa which was licensed for oil exploration and extraction (Sinopec, 2011). Shortly after this acquisition, Su Shilin was promoted to governor of the Fujian province (Potkin, 2018).

SOE managers are trusted with the great responsibility of acting on behalf of the Chinese people. Deals must be viewed by the central party as beneficial to China and within the parameters of China's national development plans. Repercussion for bad M&A decisions includes disciplinary action by the party's Central Commission for Discipline Inspection (Brødsgaard et al., 2017). Jones & Zou (2017) stated that the SOE leaders are bound to a three-year performance contract linked to individual

performance by SASAC. Performance standards are related to financial indicators of the SOE. This includes growth in revenue and profitability (Brødsgaard et al., 2017). Additionally, losses incurred by the SOE are a matter of whether a manager gets promoted or not (Thomas & Price, 2016). Therefore, given that their political career could be at risk, M&A targets are now far better thought out than previous M&A cross-border experiences. An interesting example given by participants to illustrate the power of the state party is the recent ChemChina – Syngenta deal in 2017. It seemingly appeared that ChemChina chairman Ren Jianxin was acting to secure a safe food supply for China. However, it was pointed out by a participant that it was not Ren's intention to make this China's largest outbound M&A in history (a \$44 billion acquisition). It was highlighted that the deal “*got out of hand*” and ended up becoming too big to fail because Ren promised Syngenta a USD\$3 billion breakup fee without consulting SASAC first. SASAC were displeased with what they perceived as ChemChina risking USD \$3 billion worth of public money and forcing the state into this position. Resultantly, because of not consulting and gaining approval from SASAC, once the deal was finalized, the central party forced the ChemChina CEO into retirement.

## 6.4 Theoretical development

In applying the dynamics of the institution to the Chinese context, this research argues that the beliefs that underpin the objective and concept of China's rejuvenation present within the informal institution can profoundly influence the formal institution at the national level. This can be observed in the state plans wherein the central government has openly declared the dreams of a new and excellent China. Subsequently, these formal plans are directed to China's SOEs who are essentially an extension of the central state itself. The close relationship between the state and the SOEs is further highlighted by the specific appointment of SOEs top-level leaders, which is both led and decided by the state council. The direct ties between the party and the SOEs ensure that the central government can enforce formal state mandates at each level, therefore ensuring that the fundamental objective of restoring China to its former glory is carried out.

In assisting to reach this conclusion, the following section will firstly discuss the conventional institutional view at the national, organizational, and individual levels (section 6.4.1). The formal/informal interactions of China's institutional context and the Chinese M&A context will then be presented in section 6.4.2 - 6.4.3 as a comparison to the conventional institutional perspective. Lastly, a summary of the proposed theoretical framework as obtained through the results of this research will be presented in the conclusion section 6.5.

#### **6.4.1 The interaction between formal and informal institutions at national, organizational and individual level: Conventional institutional theory view**

From Figure 6.1, it can be seen that in response to external environmental changes, the informal institution can influence societal change through what the cognitive mindset perceives as the norm. This new behavioral change is then institutionalized by the formal institution and is subsequently legitimized by the societal jurisdiction through new rules, policies, and guidelines (Webb et al., 2009).

Institutional change in the conventional sense can originate at an individual level within the informal institution. An individual who envisions a new institution as a means to advance their interest (i.e., an institutional entrepreneur) can exploit new opportunities to that are outside of the formal institution (Greenwood & Suddaby, 2006). This is commonly seen in emerging economies where the formal institution is weak and enjoy less trust, therefore allowing institutional entrepreneurs to legitimize their actions more easily (Thai & Turkina, 2014). At the organizational level within the informal institution, when the informal behaviour and activities are adopted by a group of members (informal organizations) within society, this creates an informal economy (Webb et al., 2013). If enough members of society perceive the use of the informal economy as legitimate, this can ultimately provide enough support and popularity to instigate formal institutional change (Lee & Hung, 2014). Thus, in driving institutional changes, informal organizations have to achieve legitimacy and legitimize the meaning of their informal activity (Pejovich, 1999). At the national level, as the formal institution acts to constrict what is formally perceived as

acceptable behaviour, the actions and behaviour of the informal institution are technically deemed outside legal boundaries (DiMaggio & Powell, 1983). However, the informal institution at the national level can encourage the government to re-address new societal beliefs by creating new rules and new institutional norms (North, 1994). Thereby formally institutionalizing the actions of the informal institution.

#### **6.4.2 The interaction between formal and informal institutions at national, organizational and individual level: Chinese SOE context**

From Figure 6.2, the relationship between the formal and informal institution can be observed at three levels – the national level (central government), the organizational level (the SOEs), and the individual level (the SOEs top-level manager). It can also be seen that the beliefs and values of China's informal institution, i.e., the collective dream of rejuvenating a strong China is institutionalized into China's formal institution at the national level. The core values and beliefs are formally institutionalized through policies, regulations, and principles. The formal institution restricts and sets the boundaries of how SOEs should behave and limits how they can act. Moreover, as the central government is the ultimate manager of SOEs, it is also argued that the informal institutional values at the national level are also infused into those of the SOEs. In this case, the SOEs are extensions of the central government and therefore are considered as strategic instruments to fulfill formal state plans (Nordin & Weissmann, 2018). The importance of SOEs to the party can be observed in the Chinese pillar industries. These industries are considered to be of strategic significance to state plans and thus are heavily influenced by the agenda of the central state (Brødsgaard et al., 2017). Consequently, the organizations within these industries are predominately only SOEs, and remain under the watchful eye of the state. At the individual level, SOE top-level leader positions are directly appointed by the state council, and SOE senior managers are specifically appointed by SASAC (Brødsgaard et al., 2017). These top-level SOE positions such as that of a chairman correspond to the minister level rankings within the Communist party (Leutert, 2018). Thus it is argued that SOE managers are inherently political figures themselves, and will therefore share the same informal beliefs as the central state party.

The formal institution is directed in a top-down fashion by the central government. Throughout this process, the central government ensures that at every level, the informal institution is kept consistent (Zhao, 2005). At the individual level, organizational level, and national level, everybody shares the same national pride while also having the vision of China's rejuvenation in common. Without ensuring the consistent shared belief at every level, the central government would not be able to direct the formal institution firmly nor would it be able to guarantee that the state mandate of restoring China's excellence is achieved. From this, whilst the institutional change in the conventional theory originates from the individual level, however, institutional change occurs in the reverse direction in the China context. That is, change is directed from the national level to the organizational and individual level respectively in a top-down fashion.

#### **6.4.3 The interaction between formal and informal institutions at national, organizational and individual level: Chinese SOEs' cross-border M&A context**

Shown in Figure 6.3 is the application of the formal and informal institution to the SOE cross-border M&A context. The formal institution can respond to the external changes such as the deepening of economic reforms as long as the central party is considered legitimized. The state, therefore, needs to justify any formal changes by ensuring the informal institution is constant, i.e., reinforcing the ultimate goal of national rejuvenation. For as long as Chinese society shares the same cognitive beliefs and has faith in the state, any formal institutional changes that the central government undertakes will not cause political or social instability in the country (Gries et al., 2011).

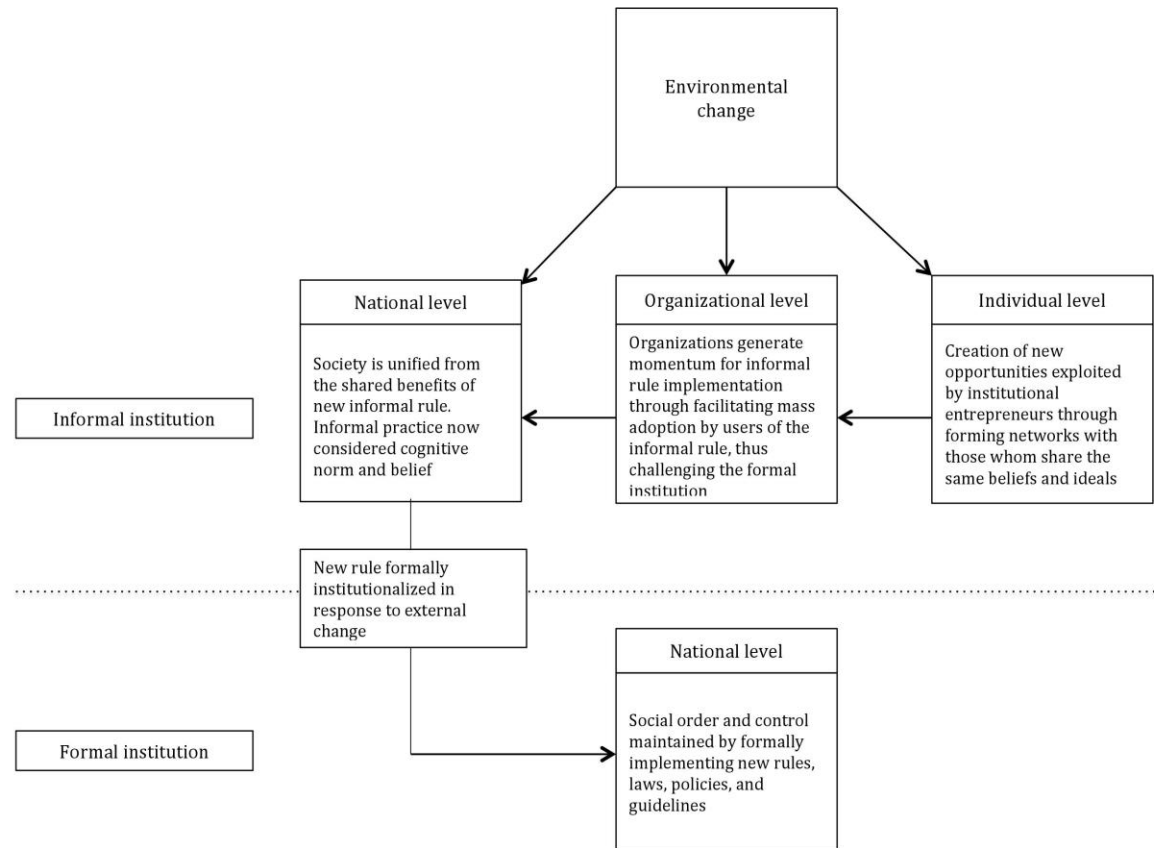
Based on state plans, targets are assigned to SOEs. Given that the state oversees all SOE activities, the state can, therefore, ensure that the national goal of rejuvenation is carried out. Moreover, the state can directly ensure state plans are fulfilled by regulating what cross-border M&As are approved. State agencies are also tasked with vetting the M&A deals to ensure that only those deals within the parameters of

the state plans are approved. Should an SOE want to pursue a cross-border target, the M&A process requires the SOE to receive approval from the state agencies SASAC, NDRC, and MOFCOM (Jones & Zou, 2017). Without approval, the SOE cannot perform the M&A. Furthermore, as the RMB is not a freely convertible currency, the SOE will need to obtain foreign currency through the SAFE agency which will not be permitted unless the necessary approval is in place. As a result of these administrative requirements, SOEs need to specifically ensure that all deals are within the parameters of state plans. Current state-backed projects actively pursued by SOEs include Made in China 2025 and One Belt One Road.

As mentioned in section 6.4.2 the close association of SOEs to the state is evident in how the party specifically appoints the chairman of the SOEs and how SASAC purposefully select the SOE senior managers. This approach to leadership appointment further illustrates how the formal institution is directed in a top-down fashion even at the individual level and further goes to highlight the influence of the state on all levels of the SOE. Upon successful management of their SOE, these SOE managers are usually rewarded with a political promotion (Leutert, 2018). This tendency or unwritten rule is a key motivator for SOE management to pursue lucrative cross-border M&As in an effort to increase SOEs assets. A successful M&A deal within the boundaries of the state plans will act as sufficient leverage for a political promotion. As a result, there will be a lack of incentives for the SOE managers to deviate from what is outlined by the formal institution. Consequently, this ensures that appointed SOE managers are the best candidates to fulfill the state mandate. From the above, it can be seen that the informal belief is consistent throughout all three levels of the Chinese economy, by ensuring this; it acts to guarantee that the formal institutional objective of the national rejuvenation of China can be achieved.

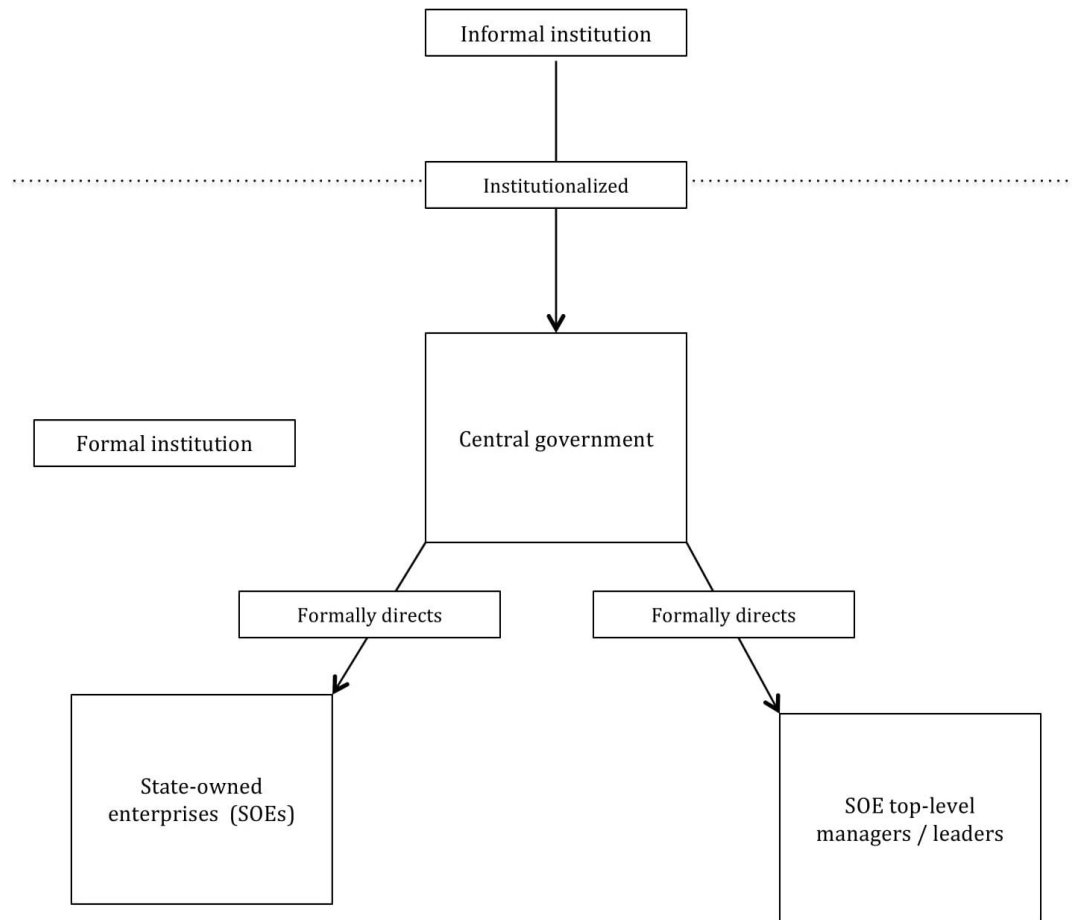


Figure 6.1. Conceptual framework illustrating the direction of institutional change between the informal and formal institution at the national, organizational, and individual level: A conventional perspective.



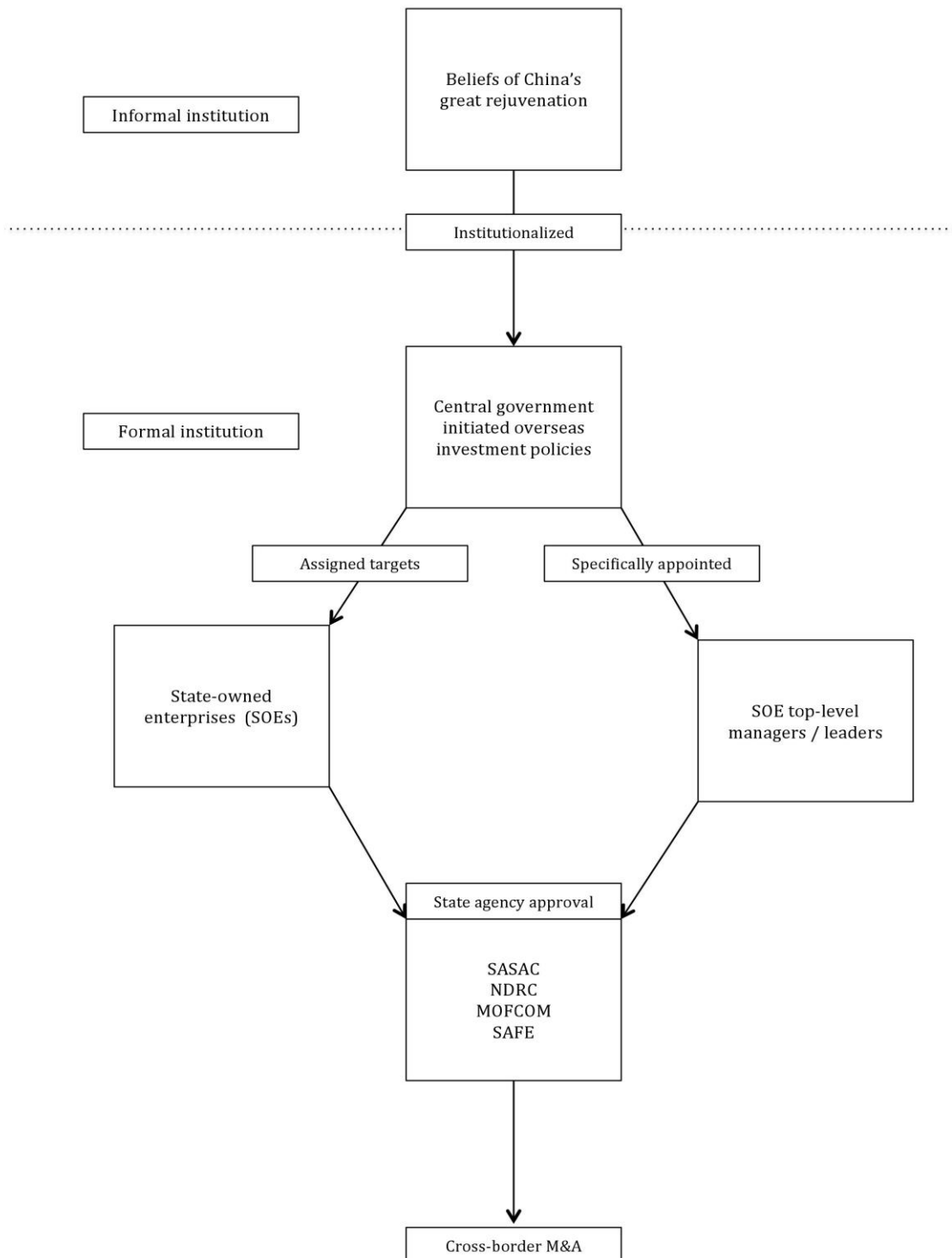
Source: Constructed by the author

Figure 6.2. A China-specific conceptual framework illustrating the top-down formal institutional directive between central government (national level), SOEs (organizational level), and SOE managers (individual level).



Source: Constructed by the author

Figure 6.3. A China-specific conceptual framework illustrating the complete dynamic of the informal and formal institutional on the central government (national level), SOEs (organizational level), and SOE managers (individual level) - with the resultant outcome of cross-border M&As.



Source: Constructed by the author

## 6.5 Conclusion

Figure 6.4 illustrates a proposed China-specific conceptual framework which highlights the relationship between informal and formal institutions across national (State), organizational (SOEs) and individual (SOE leaders) levels during a SOEs' cross-border M&A process. As per Figure 6.4, the findings of this thesis underscore a ubiquitous informal belief in the concept of rejuvenating China. Collective belief in rejuvenation stems from the informal institution and is rooted in Chinese values; subsequently playing a part in motivating SOEs to undertake cross-border M&As. This shared hope for rejuvenation, directly facilitates the state's top-down delivery of related objectives to the SOEs and subsequently, SOE leaders.

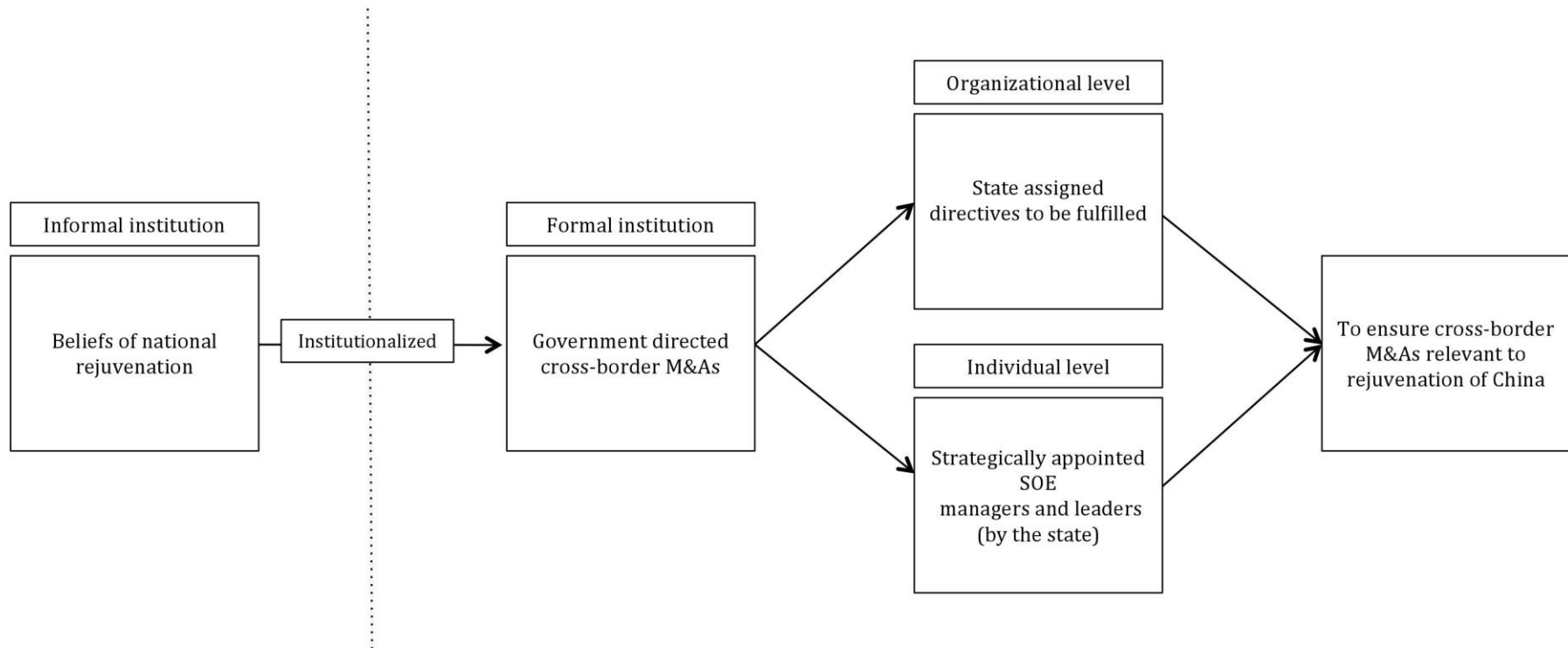
The formal institutionalization of this belief can be observed through China's desire for greater international influence and the need for greater resource security/self-sufficiency. Subsequently, the belief of national rejuvenation is actively pursued through many government-led cross-border M&As. This includes formal policies and initiatives as mapped out by state national development plans. Example policies include; 1) the promotion of the One Belt One Road initiative to facilitate China's global trade position and 2) the upgrading of China's manufacturing sector, in-line with the Made in China 2025 initiative. All cross-border M&A activity by the SOEs is directed at accomplishing state targets and complying with the state policies. Therefore, it is argued that all M&A activity is highly selective based on what is led by formal state mandate. This is further supported by the fact that all cross-border deals are now under greater scrutiny by state agencies and only those deals that fall within the boundaries of the state plans will gain approval.

In order to further ensure that the objectives of national rejuvenation are fulfilled at the organizational level, state targets set by the state council are formally directed to SOEs. Due to the proximity of SOEs to the party, it is argued that the behaviour of SOEs is highly influenced by the state, and thus essentially, SOEs are organizational agents to the state. However, once targets are allocated to an SOE, and the state council has laid out national development plans, the SOE has relative autonomy in how it may choose to approach achieving these targets. However, all intentions and

proposed strategies must be documented to SASAC at the start of the year including details of planned cross-border M&As. Therefore, it is argued that the SOE does have autonomy, albeit constrained by boundaries set out in state plans.

Finally, the state ensures mandates are carried out at the individual level by having authority over the appointment of key SOE personnel and management. This underscores the top-down influence – at an individual level – of the state, as it directly facilitates state influence and control over SOE leadership. For example, the chairman of an SOE is specifically chosen by the Organization Department of the Communist Party of China, whilst SOE top-level managers are selected by SASAC. Therefore, SOE key personnel selection is a strategic and political decision, implemented to ensure that state plans are carried out (by the best possible candidate to closely follow the state directives). SOE managers are also politically driven individuals with career aspirations that extend beyond their respective SOE. SOE leaders are also politically astute and well aware of how the party can influence their future aspirations. To this end, SOE leaders will proactively seek to undertake high-quality M&A deals well aligned with the state plans. As this will not just increase their SOEs revenue and profits, it will also gain them the positive state recognition required for later political advancement. Therefore, it is argued that cross-border M&As can also be motivated by personal political gain in addition to being driven by more clear objectives such as direct economic benefits and, fulfillment of state mandates.

Figure 6.4. A proposed China-specific relationship between informal and formal institutions across the national (State), organizational (SOEs), and individual (SOE leaders) levels during the cross-border M&As process by SOEs.'



Source: Constructed by the author

## **Chapter 7**

### **Conclusion**

## 7.1 Introduction

As a result of illustrating the dynamics of the informal and formal institution in the context of China, this research was able to explore the underlying motivations driving cross-border mergers and acquisitions (M&As) undertaken by Chinese state-owned enterprises (SOEs). These motivations were assessed at the national, organizational, and individual level. In this closing chapter, the key findings of this thesis will be summarized, and a conclusion will be put forth.

In addition to the conclusive findings of this thesis, this chapter also includes a discussion outlining how this research has contributed to the field of cross-border M&A in terms of the literature and methodological implications. Moving on, the direct institutional policy implications of this research will be examined, and suggestions will be made as to how new policies could be implemented at a national and organizational level. In the last section of this chapter, the possible limitations of this research will be considered, and finally, the future directions that can be explored as a result of this research will be examined.

## 7.2 Main findings

This research started with two research questions and, two corresponding research objectives, which this research set out to answer.

1) To answer the first research question of this thesis; “*What are the distinctive features of the institutionalization process in the China specific context?*” it required an assessment of the significance of China’s informal institution, and the motivations that drive the national rejuvenation initiative. It was illustrated that the institutional change in China was directed in a top-down fashion, contrary to the conventional bottom-up approach frequently observed in much of the literature. To thoroughly highlight these findings, a China-specific framework outlining the dynamics between the formal and informal institutions was developed.



Upon developing a China-specific conceptual framework, it was found that the informal belief of national rejuvenation is deeply ingrained in China's social values. To this end, this belief has been institutionalized into China's formal institution at a national level. As a result of the consistency of this informal belief across society, the state can smoothly direct cross-border M&As in a top-down fashion. That is, the state is able to command formal institutional change by directing the objectives of national rejuvenation to the SOEs and SOE managers respectively. Evidently, the formal institutionalization of the informal value of national rejuvenation can be reflected through China's formal objectives; namely, China is striving to attain greater international influence, and greater natural resource security/self-sufficiency.

2) The second research question of this thesis; *“How does the Chinese-style institutionalization process facilitate the unique characteristics of cross-border M&A activities by Chinese state owned enterprises (SOEs)?”* required a strategy that leveraged the grounded theory approach. On following this qualitative research methodology using of semi-structured interviews with various China M&A industry elites; the impact of the informal institution in driving the formal institution to pursue cross-border M&A activity at the national, organizational, and individual level was established.

Key findings at the national level include establishing that cross-border M&A undertaken by SOEs are governed by state-directed formal policies. Of which are then directed at the SOEs to fulfill. Resultantly, cross-border M&As are highly influenced by what is guided by the state plans. Supported by Chapter 2, secondary data was collected from the Zephyr M&A database, and analyzed over a 15-year period (2002 – 2016). This chapter illustrated how the formal institution, through state policies, regulations, guidelines, and targets facilitated the outcome of cross-border M&As conducted by SOEs. Transactions were analyzed according to their region (continent and country level) and industry distribution, in addition to being sorted according to the total number of deals and transaction value. Notable findings from the descriptive data aligned with the state mandate set out in the Made in China 2025 strategy, One Belt One Road, natural resources, and an increased focus on technology M&A targets. Thus, it is indicative that M&A deals are now considerably more selected and conducted to serve a specific purpose. This is further

evident in that all cross-border deals now fall under increased scrutiny and instructed to be vetted based on the guidelines of the state directive. Subsequently, those deals in-line with the state plans such as One Belt One Road or Made in China 2025 related will receive preferential approval by the state agencies (State-owned assets supervision and administration commission – SASAC; National development and reform commission – NDRC; Ministry of commerce – MOFCOM; and State administration of foreign exchange - SAFE).

Findings at the organizational level included, a better understanding of how SOEs are acting as agents of the state; in serving the state in this way, SOEs can ensure that formal party mandates, such as that of national rejuvenation, are properly carried out. This point underscores the influence that state has over SOEs, particularly in the context of Chinese cross-border M&A. That said, it was also established as a result of this research, that SOEs do have some autonomy with respect to determining how they set out to achieve specific objectives. However, this autonomy is conditional on the SOE working within the clearly defined boundaries of state plans. Because of the influence the state has on SOEs activity, their international reputation is often conflicting. That is, on the one hand, SOE's can't be ignored due to their undeniable global influence and importance; while on the other hand, and in the context of M&A, SOEs are documented as being difficult to work and engage. This is directly because of the states' involvement in the cross-border M&A process, noted to contribute to a perceived lack of transparency, cumbersome bureaucratic hurdles and, delays.

Concerning the findings at the individual level, it was discovered that the state can further ensure the fulfillment of national rejuvenation related objectives, by taking charge of the recruitment of top-level SOE managers. It was noted that the chairman of an SOE is specifically chosen by the Organization Department of the Communist Party of China, while other top-level SOE managers are selected by SASAC. The state is involved in the appointment of key personnel as a means to ensure that the best candidates are selected and, more importantly, to support the smooth implementation of state mandates directly from inside the SOE. It was concluded that the actions of SOE leaders are politically influenced. Specifically, it was also noted that these leaders are incentivized by the prospect of political career

advancement. Indeed, successful deals would serve to highlight the managerial and political merit of a manager to the party and thus, often result in the advancement of their political career.

## **7.3 Major contributions**

### **7.3.1 Contributions to literature**

This research has contributed to the body of literature on cross-border M&As in the China-specific context through 3 areas.

Firstly, there is limited literature that purposefully applies the institutional theory in the China context, and less focused on Chinese cross-border M&A specifically. For example, the highlighted institutional and political economy effects were based on OFDI in a general sense (Child & Rodrigues, 2005; Buckley et al., 2007; Luo, Xue, & Han, 2010), with no specific mention of the mode of OFDI or effects on cross-border M&A in China. Therefore previous literature has been limited in explanatory power in terms of purely explaining the institutional motivations of cross-border M&A in China. This research therefore contributes to the literature by demonstrating the use of a China-specific institutional framework, exclusively applicable to the institutional theory in the context of cross-border M&A.

Secondly, existing cross-border M&A literature has been more focused on explaining the cross-border M&A phenomena from the perspective of Chinese firms, with limited research documenting the exclusive perspective of SOEs. Specifically, a great deal of the prevailing M&A literature involves studies underpinned by data comprised of both state and, non-state enterprises (Du & Boateng, 2015; Schweizer, Walker, & Zhang, 2017; Zhang & Mauck, 2018). By having a dataset that is comprised of both state and non-state enterprises, researchers have therefore previously classified the M&A motivations of SOEs the same as conventional organizations, i.e., with autonomy to dictate their own M&A activity. This is not the case in the China context.

This research found that Chinese SOEs are organizational agents of the state, directed by state mandates with a strong responsibility to complete government objectives. Thus it is argued that the motivation to conduct cross-border M&As, is not simply only from the organizational level (as conventional M&A literature has assumed) - rather the motivation is also deeply embedded with the state. Moreover, the state also appoints SOE managers, thereby further influencing the behaviour of top SOE personnel, thus illustrating state influence at even the individual level. This research has therefore contributed to the existing institutional cross-border M&A literature, by undertaking an institutional analysis and highlighting the embedded nature of the state on cross-border M&A activity at the national, organizational, and individual level.

Lastly, there is a limited body of literature that is able to explain how the significance of China's past historical achievements, national pride and identity, drives the collective desire to achieve national rejuvenation. Previous literature such as that of Hope, Thomas, & Vyas (2011) and Chatzkel & Ng, (2013), illustrated the significance of pride in the valuation and bidding process of cross-border M&As undertaken by Chinese firms. This stream of research asserted that pride could result in premium bids, and therefore observed pride from the perspective of 'ego' or 'face.' This is contrary to the findings of this thesis, which established that pride is a tacit quality inherent to the Chinese identity. This research argues that it is these inherent tacit qualities that motivate SOEs to pursue cross-border M&As deals that will serve the overarching goal of national rejuvenation. It is therefore contended that the existing literature overlooks the significance of the informal institution in influencing the formal institution to motivate cross-border M&As. The informal institution is greatly influential in shaping the outlook of the state, SOEs, and key SOE personnel. This research has contributed to M&A literature by including the effects of China's intrinsic and intangible properties that are influential to the informal institution. Subsequently, these properties drive the formal outlook of the state, SOEs and, SOE managerial behavior, therefore directly influencing the outcome of cross-border M&A activity.

### 7.3.2 Methodological contributions

This thesis adopted a qualitative approach to research and, it is argued that in doing so has contributed to the prevailing field of cross-border M&A research. So far, cross-border M&A research has predominately taken a quantitative approach to collect data, with qualitative studies – particularly those leveraging semi-structured interviews – being limited in comparison. This thesis argues that this is because of the following challenges; 1) finding SOE personnel willing to discuss the topic of cross-border M&As and; 2) relevant SOE personnel being granted permission to discuss these topics openly. Indeed, in the event of securing an interview with an SOE manager, the close state ties highlighted in this research, make the task of obtaining reliable, high-quality information difficult. In addition, due to the sensitive and often confidential nature of cross-border M&A targets in China, a degree of personal risk is involved. Therefore, SOE personnel are cautious in disclosing information and, are typically reluctant to participate in interviews.

Through broadening the scope of interview participants, this research managed to obtain 32 in-depth interviews covering 26 different national level SOEs. Elite interviews were conducted with China experts with extensive knowledge of Chinese SOEs and, direct experience with SOE led cross-border M&A deals.<sup>55</sup> Undertaking elite interviews provided the opportunity to attain a unique insight into the SOE cross-border M&A phenomenon using an external perspective. Specifically, it provided a distinctive viewpoint, which directly contributed to the originality of this research. Should an elite interview approach not been conducted (with interviews with SOE personnel as the alternative), the outcome of this research would have been vastly different. This is because SOEs themselves are notoriously private, and the high-quality interviews with industry elites used by this research was only made possible as a result of several years of meticulous relationship cultivation and trust building. It is argued that because this thesis is underpinned by data collected from independent and unbiased individuals, the resulting collected insights are both rich

---

<sup>55</sup> Industry experts included China-focused M&A consultants, M&A analysts, M&A advisories, and M&A brokers, who hold senior positions within well-established multinational organizations. All the participants have extensive knowledge of the Chinese business environment, SOE operations, and the cross-border M&A process.

and authentic. This assertion is supported, when the degree of trust between the researcher and interview participants, is considered. That is, because of this mutual trust participants were willing to speak openly, candidly and, in-depth on the nature of the Chinese institution, the behaviour of SOEs and, their motivations for undertaking cross-border M&As.

Concerning the focus of this research – the dynamics of the informal and formal institution in the Chinese context, it critical to undertake a qualitative approach using in-depth interviews. This research involved many tacit and intangible elements, which are unique to the Chinese context. This includes the concept of national identity, the belief in rejuvenation, and a China-specific top-down approach to institutionalization. Should a quantitative approach have been adopted to undertake this study, these tacit, China-specific elements could not have been easily documented; consequently, an important component of Chinese motivation to conduct M&A would remain poorly understood. Therefore, it is argued that using in-depth interviews with the rich, first-hand experience of interview participants, the effects of the Chinese institution on cross-border M&A can be captured in full.

### **7.3.3 Policy implications**

There are four policy implications that this research has uncovered. The first and second implications are for the central government and SOEs/SOE managers respectively. The third and fourth implications are for the cross-border targets, from the perspective of the target country and, the target organization.

(1) Firstly, this research has adopted an institutional approach to conclude that all levels of society share the same underlying belief in the concept of national rejuvenation. This is a result of the informal objective of national rejuvenation having been institutionalized, and then subsequently, through formal policies and regulations the state ensures that the objective of national rejuvenation is collectively shared among the state, SOEs, and SOE managers (Chapter 5 and 6). In knowing this, the first research implication is that the central government will not need to implement such tightly regulated systems on the cross-border M&A process. Upon

recognizing that the objective of national rejuvenation is collectively shared by SOEs and SOE leaders, which guarantees that all cross-border M&As are aligned with this belief; the state will therefore not need to implement such close regulation on the cross-border process. The Chinese government can, therefore, streamline the M&A process to reduce the level of authoritarian management during the cross-border M&A processes to increase efficiency. One example includes the granting of more flexibility to the approval process of M&As by the state. Thus, directly leading to a less bureaucratic and more streamlined application process. This loosening of grip by the state, has two outcomes that merit note: 1) More cross-border M&As activity will be pursued by all Chinese firms and as a result, drive increased cross-border M&A activity, therefore diversifying overseas investment portfolios and increasing the global footprint of Chinese firms. 2) The discussed streamlined approval process should directly increase the percentage of successfully completed deals. As discussed in Chapters 5 and 6, many of the cross-border M&A deals undertaken by SOEs, fail due to a lack of transparency on the Chinese side. This greatly frustrates the counterparties, and the state involvement is generally viewed as unnecessary. Currently M&A deals undertaken by SOEs are often plagued with extensive delays and often fail due lack of transparency on the Chinese side. Thus by implementing a more streamlined M&A approval process, this would result in less bureaucratic hurdles as well as reducing the number of delays, and hence an increase in the deal success rate.

(2) Secondly, regarding the implications for SOEs, in sharing the same underlying vision of national rejuvenation as the state, and upon formally institutionalizing this core objective; SOEs and SOE managers can therefore lobby for more autonomy and greater control over the cross-border M&A deals. Firstly, by increasing the amount of autonomy, an SOE would improve its efficiency, working operations and as a result, also improve its reputation.<sup>56</sup> Moreover, greater autonomy will better incentivize SOEs and SOEs managers to demonstrate initiative and perform more entrepreneurial driven M&A deals, as opposed to deals that are directed by the state and constrained within the boundaries of the state plans. As detailed in Chapter 6, SOEs are primarily respected as a result of the political power behind the

---

<sup>56</sup> As detailed in point 1, the state-imposed guarantee on all aspects of the M&A process has resulted in SOEs being categorized by the counterparty as challenging to work with.

organizations. By undertaking cross-border M&As in-line with the objectives of national rejuvenation on their own account, it will therefore allow SOEs to demonstrate their own capabilities to conduct lucrative M&A deals with minimal state involvement. Thus ultimately would provide SOEs with increased credibility from their global peers. Secondly, as a result of increased autonomy, SOEs should have better chances to acquire more strategically lucrative M&A targets. This is because the enhanced distance between the SOE and the state would allow the SOEs to appear more independent, thus increasing the chances of deals undertaken by SOEs (particularly regarding technology targets) to pass the foreign approval boards.<sup>57</sup> Finally, by increasing SOE autonomy, SOE managers can have greater control over when the cross-border M&A deals should be undertaken. That is, rather than immediately adapting the existing SOE strategy to meet evolving state targets and guidelines; SOEs instead, should be entrusted to conduct cross-border M&As deals that are in the best interest of the organization. Specifically, SOE should lead M&A deals when the time is right. That is, based on what is in-line with the SOE's existing strategy and in the best interest of the organization, as opposed to being incentivized to meet state targets.

(3) Concerning the implications for the cross-border target country, the theme of national rejuvenation and, its role as a motivator for Chinese SOEs to undertake cross-border M&As, has been highlighted by this research. Resultantly, target countries will now have a holistic institutional level understanding (both formal and informal), of some of the core motivations driving cross-border M&As. This should in turn, will facilitate a more informed understanding of the state-level dynamics underpinning the acquisitions. Understanding this should help target organizations better prepare themselves for the process and moreover, encourage them to carry out more thorough screening and vetting of proposals put forward by Chinese SOEs. To this end, national policies focused on the safeguarding of organizations in strategic industries can be developed, and thus, shield nations from an undesirably high number of acquisitions by Chinese SOEs. In sum, from the perspective of the target country, by having a complete institutional level understanding, the target country can better safeguard its own enterprises from foreign acquisitions, as well as be more

---

<sup>57</sup> As discussed in Chapter 6, technology deals conducted by SOEs often do not pass the foreign approval boards on national security grounds, as SOEs are viewed as not independent from the state.



be informed to justify vetoing acquisitions within sensitive economic industries and the export of key foreign technology.

(4) From the perspective of the firms targeted for acquisition by Chinese SOEs, these organizations may be able to gain additional confidence when dealing with SOEs, as a result of firstly, having a better understanding of the degree state involvement in the cross-border M&A process; and secondly, knowledge of the underlying motivations driving cross-border acquisitions. That is, given the stringent approval process on M&A deals, a target firm would now be equipped to better understand the reasons for a deal undergoing a long-winded vetting and approval process – this typically being the case for transactions deemed to be of strategic benefit to China. In understanding the effects of both the informal and formal institution on SOE behaviour, and moreover, how this often affects M&A outcomes, a target organization could leverage this in negotiations, securing a better outcome for their stakeholders. This is because acquisitions will usually have specific strategic relevance to China's broader national objectives. In sum, a better understanding of the magnitude of political dynamics at play within SOEs and how these dynamics influence M&A, will afford target organizations with increased strength during negotiations.

## **7.4 Limitations: Sample size**

This research completed a total of 32 interviews with 21 different interview participants, covering a total of 26 different SOEs. This could be considered as a relatively small sample size and thus, be singled out as a possible limitation. However, researchers in the past have argued there is no concrete definition of what is an acceptable sample size in qualitative research. For example, Creswell (1998) recommended a sample size of twenty to thirty interviews as sufficient for grounded theory studies. Guest et al. (2006) found that after twelve interviews, the data collected was sufficient to reach a saturation point and achieve the desired research objective. Bernard (2006) further supported this view, stating that there is no such minimum requirement in terms of total conducted interviews and moreover, that the pool of candidates and amount of data very much depends on the nature of the study. Furthermore, Mason (2010) and Morse (2000) emphasized that the quality of the

sample used should be determined by the individuals selected and the calibre of the interviews captured.

In further support of the preceding statement, the following points serve to justify the sample size of this thesis further. Firstly, given that SOEs are all managed by the state and influenced by party objectives, it can be argued that SOEs are homogenous in nature thus limiting the need to attain a large and varied sample size. Secondly, as this research does not involve hypothesis testing, it does not require a large data sample, which is typically needed to refute, or support hypothesis testing (Bryman & Bell, 2015). Lastly, following Mason (2010) and Morse (2000) notion of quality over quantity, as addressed in Chapter 4, high calibre interviews were acquired firstly by undertaking pilot studies to screen and pre-test all prepared questions. This allowed questions to be revised in terms of answerability, understanding, and sensitivity. Furthermore, and most critically, the obtained interviews of this research were with high-level industry experts, given based on trust and as a result of long-established relationships built over several years. Because of this, participants were comfortable to speak candidly, allowing for the collection of rich and varied information. Therefore, in consideration of the preceding points, and moreover because of the rich nature of the sample acquired, it is countered that in the context of this thesis, the data obtained is fully sufficient to satisfy the objectives of this research.

## **7.5 Suggested future directions of research**

This research has drawn attention to the significance of the informal and formal institution in the context of Chinese cross-border M&As by SOEs. That is, this research has illustrated an understanding of how cross-border M&As can be both culturally and politically motivated. This has shed light on the following new streams of research that merit further consideration.

### *Extension of this research in other economies*

Foremost, it is hoped that through a holistic understanding of both realms of the institutional effects, scholars and industry practitioners will recognize the significance that the institution can have in driving cross-border M&A. Thus inspiring the extension and development of this research. For example, determining whether institutional effects are also significant in driving cross-border M&As in other economies (both developed and developing). This research exposed the significance of the informal belief of national rejuvenation. However, despite China having a unique cultural identity, the overarching implications of national rejuvenation and national pride could also be key drivers to other nations seeking to regain past economic prominence or political influence. Given that the Chinese economy has consistently continued to experience substantial economic growth, a closer analysis into the economic significance of a state-driven top-down approach towards SOE management can be made. Therefore, scholars could extend this research to determine whether a transition from a decentralized democratic style of management, to a more centralized style – as seen in Chinese SOEs – would create economic gains for other nations and their state-owned organizations.

### *Post-acquisition synergy analysis*

Finally, one of the key findings of this research was the illustration of the significance of national rejuvenation on motivating cross-border M&As by Chinese SOEs. Therefore, in order for the state to achieve this, it is critical to ensure that upon acquiring the target organizations, Chinese SOEs are equipped to generate positive post-acquisition synergy. Thus, this research can be extended by analyzing the post-M&A performance of the acquisitions.

When cross-border M&A deals occur, it is understood that the most challenging task a firm is faced with, is for the firm to integrate operations to best maximize the new resources. This is because of the complexity associated with differences in values, norms, and culture. When an M&A deal involves the merging of two cultures, it is critical for the success of the transaction that the organizations integrate culturally. However, post M&A cultural integration between two parties from with varying

cultures often struggle to generate synergy, because the firms are viewed as separate entities as opposed to interdependent.

This research has shown that the majority of M&A deals led by Chinese SOEs are undertaken in Europe (as per Chapter 2). Because of the cultural differences between European acquisition targets and SOEs – whether linguistic, organizational, or managerial – efforts must be applied in order to create synergy and secure longevity. Therefore, future research could set out to determine the post-acquisition factors, that are critical to achieving organizational synergy and post-acquisition longevity. This is most important due to the significance that these acquisitions have in relation to China's strategic objectives. That is, assuring post-acquisition success and subsequent value creation of cross-border M&A deals, should have a direct and, positive impact on China's ultimate objective of achieving national rejuvenation.

## **Appendix**

## Appendix 1.1

Table 1. Cumulative total of cross-border deals undertaken by Chinese SOEs' by industry (2002 – 2016)

Industry	Total by number of deals (%)	Total by value of deals (%)
Manufacturing	49.6	44.3
Natural resources	27.0	23.1
Finance	12.2	23.9
Retail	5.2	2.2
Technology	2.6	6.3
Others	3.5	0.2
Total	100	100

*Data source: Zephyr M&A database. Constructed by the author*

\*Notes:

Total number of deals: 115

Total value of deals: \$983.9 (100 mill USD)

Table 2. Industry distribution of Chinese SOEs' cross-border M&A targets regionally by number of deals

Panel A. Europe

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
1	Natural resources	3	60	1	Manufacturing	4	80	1	Manufacturing	31	66.7
2	Manufacturing	2	40	2	Others	1	20	2	Natural resources	7	14.6
	Finance	-	-		Finance	-	-	3	Retail	4	8.3
	Retail	-	-		Natural resources	-	-	4	Technology	2	4.2
	Technology	-	-		Retail	-	-	4	Others	2	4.2
	Others	-	-		Technology	-	-	6	Finance	1	2.1
	Total	5	100		Total	5	100		Total	47	100

Panel B. Asia

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
1	Manufacturing	3	60	1	Natural resources	3	50	1	Natural resources	3	33.3
2	Natural resources	2	40	2	Manufacturing	2	33.3	2	Manufacturing	2	22.2
	Finance	-	-	3	Finance	1	16.7	2	Finance	2	22.2
	Retail	-	-		Retail	-	-	4	Technology	1	11.1
	Technology	-	-		Technology	-	-	4	Others	1	11.1
	Other	-	-		Other	-	-		Retail	-	-
	Total	5	100		Total	6	100		Total	9	100

Panel C. North America

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
1	Manufacturing	3	75	1	Manufacturing	2	50	1	Manufacturing	5	62.5
2	Finance	1	25	2	Finance	1	25	2	Finance	2	25
	Natural resources	-	-	2	Retail	1	25	3	Natural resources	1	12.5
	Retail	-	-		Natural resources	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
Total		4	100	Total		4	100	Total		8	100

Panel D. South America

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
1	Natural resources	1	100	1	Natural resources	2	100	1	Natural resources	5	45.5
	Finance	-	-		Finance	-	-	2	Finance	4	36.4
	Manufacturing	-	-		Manufacturing	-	-	3	Manufacturing	1	9.1
	Retail	-	-		Retail	-	-	3	Retail	1	9.1
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
Total		1	100	Total		2	100	Total		11	100



Panel E. Oceania

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
1	Natural resources	1	100	1	Natural resources	1	50	1	Natural resources	2	66.7
	Finance	-	-	1	Finance	1	50	2	Manufacturing	1	33.3
	Manufacturing	-	-		Manufacturing	-	-		Finance	-	-
	Retail	-	-		Retail	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
	Total	1	100		Total	2	100		Total	3	100

Panel F. Africa

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%	Rank	Industry	No. of deals	%
	Finance	-	-	1	Finance	1	100	1	Manufacturing	1	100
	Manufacturing	-	-		Manufacturing	-	-		Finance	-	-
	Natural resources	-	-		Natural resources	-	-		Natural resources	-	-
	Retail	-	-		Retail	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Other	-	-		Other	-	-		Others	-	-
	Total				Total	1	100		Total	1	100

Data source: Zephyr M&A database. Constructed by author

Table 3. Industry distribution of Chinese SOEs' cross-border M&A targets regionally by value of deal (100 mil USD)

Panel A. Europe

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
1	Natural resources	1.9	60.3	1	Manufacturing	3.8	81.9	1	Manufacturing	162.9	51.4
2	Manufacturing	1.3	39.7	2	Others	0.8	22.1	2	Natural resources	64.6	20.4
	Finance	-	-		Finance	-	-	3	Retail	60.4	19.0
	Technology	-	-		Natural resources	-	-	4	Finance	21.7	6.9
	Retail	-	-		Retail	-	-	5	Technology	6.9	2.2
	Others	-	-		Technology	-	-	6	Others	0.7	0.2
Total		3.2	100	Total		4.6	100	Total		317.2	100

Panel B. Asia

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
1	Manufacturing	3.9	53.4	1	Manufacturing	0.2	50	1	Manufacturing	59.0	33.3
2	Natural resources	3.4	46.6	2	Natural resources	51.7	33.3	2	Natural resources	8.0	22.2
	Finance	-	-	3	Finance	2.8	16.7	2	Finance	84.9	22.2
	Retail	-	-		Retail	-	-	4	Technology	1.7	11.1
	Technology	-	-		Technology	-	-	4	Others	0.1	11.1
	Other	-	-		Others	-	-		Retail	-	-
Total		7.3	100	Total		54.7	100	Total		153.7	100

Panel C. North America

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
1	Manufacturing	1.6	98.2	1	Finance	0.8	74.5	1	Manufacturing	191.1	81.4
2	Finance	0.03	1.8	2	Manufacturing	0.2	21.8	2	Finance	43.7	18.6
	Natural resources	-	-	3	Retail	0.04	3.7	3	Natural resources	0.1	0.04
	Retail	-	-		Natural resources	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
Total		1.63	100	Total		1.01	100	Total		234.9	100

Panel D. South America

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
1	Natural resources	1	100	1	Natural resources	0.1	100	1	Finance	93.7	60.9
	Finance	-	-		Finance	-	-	2	Natural resources	48.3	31.3
	Manufacturing	-	-		Manufacturing	-	-	3	Manufacturing	12	7.8
	Retail	-	-		Retail	-	-	4	Retail	0.004	0.003
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
Total		1	100	Total		0.1	100	Total		154.0	100

Panel E. Oceania

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
1	Natural resources	0.2	100	1	Natural resources	29.1	93.6	1	Natural resources	19.0	98.8
	Finance	-	-	2	Finance	2.0	6.4	2	Manufacturing	0.03	0.2
	Manufacturing	-	-		Manufacturing	-	-		Finance	-	-
	Retail	-	-		Retail	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Others	-	-		Others	-	-		Others	-	-
Total		0.2	100	Total		31.1	100	Total		19.03	100

Panel F. Africa

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Industry	Value	%	Rank	Industry	Value	%	Rank	Industry	Value	%
	Finance	-	-	1	Finance	0.2	100	1	Manufacturing	0.02	100
	Manufacturing	-	-		Manufacturing	-	-		Finance	-	-
	Natural resources	-	-		Natural resources	-	-		Natural resources	-	-
	Retail	-	-		Retail	-	-		Retail	-	-
	Technology	-	-		Technology	-	-		Technology	-	-
	Other	-	-		Other	-	-		Others	-	-
Total				Total		0.2	100	Total		0.02	100

Data source: Zephyr M&A database. Constructed by author

Table 4. Top 3 largest single cross-border M&A deals by Chinese SOEs' from each period

Panel A. 10<sup>th</sup> FYP 2002-2005

Rank	Acquirer	Target	Target Country	Target Industry	Deal value 100 mil USD	Year
1	Beijing Oriental Electronic Technology Group	Hynix semiconductor Inc.	South Korea	Manufacturing	3.8	2003
2	Petrochina Co. Ltd	Devon energy Corporation	Indonesia	Natural resources	2.6	2002
3	Weifang Yaxing Chemical Co. Ltd	Bayer Chemicals (Texas)	United states	Natural resources	1.2	2005
3	Weifang Yaxing Chemical Co. Ltd	Bayer Porofof (Leverkusen)	Germany	Natural resources	1.2	2005

Panel B. 11<sup>th</sup> FYP 2006-2010

Rank	Acquirer	Target	Target Country	Target Industry	Deal value 100 mil USD	Region
1	China Petroleum & Chemical Corporation	Udmurtneft OAO	Russia	Natural resources	35.0	2006
2	Yanzhou Coal Mining Co. Ltd	Felix Resources Ltd	Australia	Natural resources	29.1	2009
3	Huaneng Power International Inc.	Sinosing Power PTE Ltd	Singapore	Natural resources	16.1	2008

Panel C. 12<sup>th</sup> FYP / 13<sup>th</sup> FYP 2011-2016

Rank	Acquirer	Target	Target Country	Target Industry	Deal value 100 mil USD	Year
1	Bank of Communications Co Ltd	Banco BBM SA	Brazil	Finance	83.7	2016
2	Industrial and Commercial Bank of China Ltd	Tekstil Bankasi SA	Turkey	Finance	82.3	2015
3	Nangtong Jiangshan Agrochemical & Chemicals Co Ltd.	Ladda Group Holdings Co Ltd.	Thailand	Manufacturing	59.0	2013

*Data source: Zephyr M&A database. Constructed by author*

Table 5. Industry distribution of cross-border M&A targets by Chinese SOEs' and Non-state enterprises (number of deals) (1 of 3)

Panel A. Manufacturing

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	8	88.9	1	SOEs	8	44.4	1	SOEs	44	40.0
2	Non-state enterprise	1	11.1	2	Non-state enterprise	10	55.6	2	Non-state enterprise	66	60.0
Total		9	100	Total		18	100	Total		110	100

Panel B. Natural Resources

10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	7	100	1	SOEs	6	100	1	SOEs	18	64.3
2	Non-state enterprise	0	0.0	2	Non-state enterprise	0	0.0	2	Non-state enterprise	10	35.7
Total		7	100	Total		6	100	Total		28	100

Table 5 continued (2 of 3)

Panel C. Finance											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	1	100	1	SOEs	4	80	1	SOEs	10	71.4
2	Non-state enterprise	0	0.0	2	Non-state enterprise	1	20	2	Non-state enterprise	4	28.6
Total		1	100	Total		5	100	Total		14	100

Panel D. Technology											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	1	100	1	SOEs	0	0.0	1	SOEs	3	25
2	Non-state enterprise	0	0.0	2	Non-state enterprise	0	0.0	2	Non-state enterprise	9	75
Total		1	100	Total		0	0.0	Total		12	100

Table 5 continued (3 of 3)

Panel E. Retail											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	0	0.0	1	SOEs	2	66.7	1	SOEs	5	29.4
2	Non-state enterprise	0	0.0	2	Non-state enterprise	1	33.3	2	Non-state enterprise	12	70.6
Total		0	0.0	Total		3	100	Total		17	100

Panel F. Others											
10 <sup>th</sup> FYP 2002-2005				11 <sup>th</sup> FYP 2006-2010				12 <sup>th</sup> FYP / 13 <sup>th</sup> FYP 2011-2016			
Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%	Rank	Firm	No. of deals	%
1	SOEs	0	0.0	1	SOEs	1	100	1	SOEs	3	23.1
2	Non-state enterprise	0	0.0	2	Non-state enterprise	0	0.0	2	Non-state enterprise	10	76.9
Total		0	0.0	Total		1	100	Total		13	100

*Data source: Zephyr M&A database. Constructed by the author*



## Appendix 2.1

### Invitation for Interview

PhD candidate: Ms. Kim Bui  
Tel: +44 79177 65639  
kb11@soas.ac.uk

#### **Motivations for cross-border mergers and acquisitions (M&A) by Chinese state owned enterprises (SOEs).**

I would like to invite you to take part in a research that aims to determine the motivations for cross-border mergers and acquisitions (M&A) by Chinese state owned enterprises (SOEs). In partaking in this research, it would involve either a face-to-face interview or a telephone interview with the researcher to discuss your thoughts on this subject matter.

Enclosed is a Participant Information Pack which provides you with further information regarding this research. This includes a research synopsis, answers to questions you may have, and a participant consent form.

Should you have any questions regarding taking part in this research please do contact me on the details found at the top of this letter.

Thank you for taking the time to read this invitation.

Yours sincerely,

*Kim Bui*

Kim Bui  
PhD candidate  
School of Finance and Management  
SOAS, University of London

## Appendix 2.2

### Participant Information Pack

#### Motivations for cross-border mergers and acquisitions (M&A) by Chinese state owned enterprises (SOEs).

##### Synopsis of Research

This research would like to explore the impact of China's past historical achievements on influencing the informal and formal institution and subsequent effect on motivating cross-border M&As. This research proposes that the behaviour of Chinese SOEs and subsequent cross-border M&A transactions are a result of the effects of both the formal and informal institutions. It has been well documented that formal policies, targets, and guidelines set by the central government can encourage the internationalization in the form of cross-border M&As. However, there has been little research conducted on how the significance of informal beliefs such as *national rejuvenation* and *pride* can also influence the formal institution to encourage cross-border transactions. This research will therefore take an inductive grounded theory approach to determine *the dynamic interactions of the formal and informal institution on motivating cross boarder M&A transactions by Chinese SOEs*.

Given the interconnectedness of SOEs and the central government, this research will therefore explore the motivations at the national, organizational, and individual levels, and across four industries: natural resources, finance, manufacturing, and technology

##### Why have I been selected to take part?

You have been selected to take part in this research because it is believed that your expert knowledge and experiences on the Chinese economy, SOEs, and in the field of M&As will provide invaluable insight into determining the motivations for cross-border M&As by SOEs.

##### What is required of me?

The researcher will arrange a time that is most convenient for you to be interviewed. The interview can be done in person or over the phone. The researcher will ask you some questions such as about your experiences on the Chinese economy, working with SOEs, and your opinions on the Chinese institution. It is expected that the interview will be approximately one hour, and with your permission the interview will be audio-recorded.

**Do I have to participate in this research?**

The interview is entirely voluntary. Should you not want to take part, you can decline without reason to be interviewed. Even if you do take part, you are free to withdraw at any stage of the interview process.

**Will my participation be kept confidential?**

This research will follow the Chatham House Rule, this means the researcher is free to use the information received, however, the identity and affiliation of the interview participant cannot be revealed. Any information given will be used solely for the purpose of this research. At no stage during the research process will the participant identification be disclosed. Excerpts from the interview may be included in the final thesis however your name or any identifying characters will remain anonymous and confidential.

**What will my information be used for?**

It is hoped that with your participation and the data collected using your interview will assist in generating a new theory explaining the cross-border M&A phenomenon. This research would like to illustrate the institutional dynamics for motivating outbound M&As. From your answers this research can also determine the drivers for cross-border M&As from the national, organisational and individual level by Chinese SOEs.

**What if there is a problem?**

If you have any concerns regarding any aspect of this research, you can speak to the researcher directly (*contact details below*) so that the researcher can do their best to address your concerns. If you remain concerned or unhappy you can formally contact the researchers' supervisor Dr. Eunsuk Hong on +44 (0)20 7898 4564 or eh19@soas.ac.uk.

**I want to take part, what shall I do?**

If you would like to take part, then please contact the researcher Ms. Kim Bui or +44 79177 65639 or by email on kb11@soas.ac.uk.

## Appendix 2.3

### Participant Consent Form

#### Motivations for cross-border mergers and acquisitions (M&A) by Chinese state owned enterprises (SOEs).

Please tick

I confirm that I have read and understood the information pack provided for this research. I have had the opportunity to ask questions and have had these questions answered.

☐

I understand that my participation is voluntary and I am free to withdraw from the interview at any time.

☐

I understand that the interview will be audio-recorded and give permission for the researcher to listen to the recording of my interview.

☐

I agree the researcher is free to use the information received; however, my identity and any identities affiliated with me must not be revealed.

☐

I agree to take part in this research.

☐

---

Name of Participant

---

Date

---

Signature

Name of Researcher: Ms. Kim Bui (PhD Candidate)  
School of Finance and Management  
SOAS, University of London  
Tel: +44 79177 65639  
kb11@soas.ac.uk

## Appendix 2.4

### A Sample of the interview transcripts

#### Motivations for cross-border M&As by Chinese SOEs

##### Semi-structured interview for China M&A experts

Interview session: 1

Date: 06/12/2017

Start time: 16:06 (China standard time)

Finish time: 17:20 (China standard time)

Location: Participant in Beijing (interview over the telephone)

Personal background of interviewee:

Sex: Male

Position: M&A advisory for MNE

Years experience: 8

Involved SOEs: ChemChina, COFCO, Sinopec, CNPC. StateGrid

(I = interviewer) and (G = interviewee)

I:	<b>Why do you think is the rationale for SOEs to conduct overseas M&amp;A?</b>
G:	Hm...to explain a little bit... SOEs are not government but they are owned by government and they operate the decision making level very much like the government but those are officially appointed... When you're not incentivized like a commercial organization like a private company, then you have the reason to believe that the behavior is more quasi government than economically profit driven... It's like you won't be able to imagine the head of Sinopec and CNPC the two largest oil companies in China, you know the head of them can swop just by the government! If BP and Shell CEO will swop tomorrow you will be shocked! Like... it's never going to happen! So in this sense, they are quasi-government so each of them actually have a region they can operate in. Um...for example, you are the StateGrid company, you have a parameter in which you can operate in, if you are the electric company for Shanghai then you authorization to operate within the Shanghai region. Now by time when you have grown large enough and you have dominated every part of your own region, the problem being where next can you go, because going out of your authorization region which if you are a private company is the natural incentive, for them it is impossible which means you are trespassing someone else's territory and that's political suicide! You have no incentive to do that! hm...so in that respect...going abroad and acquiring something overseas is one of the ways they can grow, because that's very safe. It means I'm creating something as per governments incentive policy of going out and I have the parameters to grow. All these big companies measure their success to an extent by their size, and with their ability to attain cheap guarantee financing from the Chinese banks. Sometimes this is one of the

	<p>most effective way forward for them to build up their political resume per say... So yes you can say this is some sort of pride for them because by doing that they have sort of created something when there is nowhere else to go because if they have dominated 95% of the market then there's not really any more room to move forward so that's one of the incentive we actually see quite often is because there is nowhere else to go...they have lots of guarantee of cheap financing available at hand so they can do it and if they want to grow then going overseas is the inevitable option for some of them. Whether that makes economic sense is actually another matter... um for them as long as... um well... if you think about economic decision, fundamentally speaking your return is hurdled by your rate of financing, like if you can borrow money at 0% then anything will have a positive impact, so you will go and pursue it because you earn money. So if you are an SOE and you have access to cheap financing then for them the hurdle rate is actually quite low, it's getting less and less now, but several years ago you would see people pursuing at crazy prices which shocked infrastructures funds and then everybody was saying "that's a bit you know... in our calculations that doesn't work." And you know also SOEs don't sell. They have something in their pocket and they need it to be there and to be a size indicator so they have no intention to sell... But we do see companies that are forced to, like COFCO is obviously having problems at the moment because previous acquisitions turned out to not be as they imagined it to be. Like Syngenta and ChemChina where they discovered the deal was getting out of hand.</p>
G	<p>But uh ChemChina specifically... so their incentive is actually back-driven. So as ChemChina, they are having a lot of tasks from the nation, so like some of the provincial government have some near bankruptcy local level SOEs, so actually they will have ChemChina absorbed them! And then, you will see... they are one of the larger SOEs so they have the capability to solve employment issues, they have the money and power and human resource to turn things around - and even if they can turn the entire operation around. So...this is also one of the ways the government operates in China. ChemChina, what they are trying to do... well, they are trying to acquire state of the art company in the industry and they introduce those markets and the sort of international operating standard back into China... so they actually which is quite rare really! They are actually trying to make themselves profitable in the sense where they acquire something that is really profitable. For example, they have 100 billion in assets, they have 1 billion in net profit so that's about 1% and they now acquire something that's 50 billion in total assets but 20 billion in net profits...You can do the math's, that is something that will really incentivize them...because they can say look we have improved our profitability by doing this! Because literally, it's a math's game. I'm introducing something that is much more high quality and profitability... in comparison to myself, the grand conglomerate is going to be a better company! This model is not universal, it's less common and actually its much riskier because the head of ChemChina is in deep trouble. Because the Syngenta move is getting out of his hand. He has promised a 3 billion breakup fee without telling SASAC, when SASAC found out they were shocked, because ChemChina are not authorized to use taxpayers money to that extent. You are risking 3 billion</p>

	USD worth of public money, to him it's like common commercial terms for doing a 45 billion deal and 3 billion breakup fee sounds reasonable but to the government, they are like... I don't care what you have been doing but that 3 billion USD sounds a bit unusual...Uh I think he is in a lot of trouble because the state is being forced into this position because of him. It's a little bit like too big to fall.
I:	<b>So what will happen to the ChemChina CEO?</b>
G:	He is being lifted in the air the Chinese way... So his decision is still there, his name is still on the website but everything has been taken out of his hands. So he is literally now, just a puppet sitting at the chairman seat. I mean you could place that on anyone, he loses his actual power. No one is going to speak to him because they don't want to look like they are in his inner circle, so it's a bit pathetic.
I:	<b>Was ChemChina specifically chosen by SASAC to pursue Syngenta or was it a deal they found on their own?</b>
G:	Uh, I think its a little bit weird... to an extent it was mutual. I think in this case, his initiative was probably the major force behind it but if you're going to pursue something that size without a covert indication from SASAC...well look, how the SOE operates in overseas investment, they will have a report at the beginning of the year that lays out every aspect of their operations to the shareholder i.e. the SASAC, and within it they will detail. So like, if they have any plans they will say it, and that's usually the way SOEs operate because if you say that and that has been approved then when you are actually pursuing them in the middle of the year, you don't need any subsequent approval or registration with SASAC or more because they acknowledge your plans. Now for Syngenta, given the fact that this is very optimistic coming on the market. No one would have predicted it would be on the market, then I would say, it's probably not included in their M&A plans. But before when they acquired Pirelli, I think the State is actually quite happy because Pirelli is a very good asset... although they paid a considerable price, but they have successfully merged the two of them to create a conglomerate that works for Pirelli and themselves. Before Syngenta they were... sort of a hero, and now after they have become a little bit... hard to define really. Not a happy ending.
I:	<b>Given socialist responsibility of SOEs, how do you think that affects the performance of SOEs?</b>
G:	If you're looking at the SOEs before 2016, none of them were profitable, well most of them were struggling on the break-even point! You can check the net profit level of them, at the moment I think most of them are doing better because of the state efforts to trying to eliminate the private sector in the upstream level i.e. the raw materials like the steel company, chemical industry... they basically control most natural resources of the country. At the moment they are doing good. In terms of the social responsibility point, they are the pioneers of developing this country, so at the very beginning the communist party laid down their strengths, in doing so they promoted the entire economy by their firm grips on the entire country through the SOEs! Because they are quasi-government and they are doing things not entirely economic but with plans laid out for the country... so I don't really think profitability has been their goal from the very beginning. They try not to make a loss yes.

I:	<b>How involved is the state in the SOE process?</b>
G:	The state is not very involved to be honest. What the government is doing is that, hm they have sort of grant initiatives, for example the belt and road initiative. So they won't directly be involved in a transaction of course except Syngenta which is in a bit of trouble and is racing a bit too high, but generally they won't. Their involvement is firstly laid out in policies, initiatives, mm... the initiative are actually, well if you're doing something towards it then you can easily get credit. It's much more easier and you have sovereign funds, you have the banks, when you say you're doing something within the belt initiative, the bank will say OK... So that the promoting area so we will treat you differently. Secondly, when you're doing the deal, the state has the veto right. The veto right is subtle, when you are doing a deal you need to report to them, in theory they can veto it, in reality it doesn't happen. The SASAC level is more of an informed basis. Hmm for example, you are a utility company and you are acquiring utility related that is fine but if you are going to acquire Apple tomorrow then you're probably going to get called out...what is that and how is that related to your major business? It's still a bit related to the first story I told... they have their authorized area and they can operate...they can go overseas but you still have to operate within your own arena and not go out into something else. And of course now... the real estate properties are being literally banned by the central government. So if you're doing it as an SOE, that would be very unwise. As a decision maker, worst case scenario they will remove you from your seat. They will not choose to do that because if they do that it shows they have previously made a mistake by putting you there and you don't really want that. In terms of emergency or something like that they have the authority.
I:	<b>So the target is selected by the SOE and not allocated by the central government?</b>
G:	No, the central government won't have that kind of resources to do it.
I:	<b>So it sounds like SOEs actually have quite of lot of autonomy</b>
G:	Yes of course! As long as they follow the initiatives set by the state. They have much better access to credit than private companies, it's not even comparable.
I:	<b>So are SOEs able to perform profitably?</b>
G:	The SOEs entire purpose of existence is not profit driven. Mm... from the very beginning they have their purpose and that purpose just happened to be not very economically driven and that's it. For them, it all comes down to the chairman, number 1, or party secretary of that SOE. If he has high political ambition, then he will try to do something to promote himself. If he is less ambition type then he will obviously live a good life but at the same time try not make mistakes.
I:	<b>The C-level managers of SOEs, who appoints them there?</b>
G:	Hmm...that's actually a tricky question, so usually the decision makers i.e. board level will consist who been in the SOE for a very long time and people who are from whatever sources. So, for example, the head of SASAC was the previous head of CNPC. So... you will have intermingle selection and then sometimes you will have few political players like provincial heads who's been defeated in his political career and has been put into an SOE as a deputy executive chairman or something...Its difficult



	to say but usually a mix of these so people being appointed by the top and you've had people who have been there for their lifetime.
I:	<b>So the appointment is not just politically appointed, they have expertise in their field?</b>
G:	There will be political intermingle for sure but in the decision making level... I think the spirit is... so you will see people who have been transferred regularly between the SOE just to avoid them having too much influence in one of the SOE. If you think about it, if you are the head of Sinopec, in some of the local provinces your company employs significant amount of the GDP, so you are looking at one of the only sort of power that has authority across the entire nation. Its acting a very dangerous thing to have, and if you think about China Tobacco company who has I believe cash reserves of 1 trillion USD in cash, you will see if they really want spend their money into a very against government way, they have a huge leverage of doing that, they can acquire Apple plus Microsoft tomorrow. SOEs are powerful organizations.
I:	<b>So does the political aspirations really drive SOE managers?</b>
G:	To some extent, to some of them yes...and to some of them it's difficult to say. To me I would say to some of them, to be a head of an SOE it will be the end of their career anyway. So to them, hmm... but I think for lots of them that will be their end of game so what they will try to do is to stay put, smile and act steadily and to just retire. And they will have a lifelong guarantee pension, medical care for life and for their family.
I:	<b>Do you have any final remarks?</b>
G:	The fact is, China is a huge entity, thinking about it, China is the size of Europe, we have a huge population and so it's very very difficult a few people to govern this place. Think about it...just look at how the EU is falling apart every week. You will have very similar situation where Guangzhou and Hong Kong share the same the culture, language or way of doing things. I come from Guangzhou and I live in Beijing and I realize how different the people are, that's just normal. You go to London and you expect to see people very differently from Paris and Paris to London is only 2 hours in flight and I am flying from Beijing to Guangzhou and it takes me 4 hours! So it's actually, how to manage the country and how to govern the country in China is actually quite something much more difficult than you can think of. The only sort of democracy country in the world that has a large span of population is the US and they existed since 1876 that's 200+ plus years. Beijing has 30 million living in the city and Australia as a continent has 25 million so the entire way as to how to govern the country is much more difficult and different than the Western way of thinking it will be. And... if you're thinking how diversify the country is, if you use democracy to do it, it won't work, I'm pretty sure. The relationship between the state and M&A activities, it's not like I'm telling you what to do and you go and do it. It's more like, I'm promoting this, and if you do it you will get preferential treatment even this way or that way, because I am the government and I hold absolute power and authority to grant you whatever I think is appropriate. It is within my power, you will have my gratitude and you will have more influence. Probably not in the way you desire but the country does have a way to send its gratitude. The state can send its direction and move things in a way but it does not micro manage. It's more

	<p>of a macro way of looking at things. At the moment if you make your case to the state council, you will have the state backing and you will have bank financing, if you can let us see your plans, if you get approval of the plan then you will have state backing. That's how the relationship goes, you can take a look at September 2016, we have sort of a note from the government saying we have foreign no go areas, don't do it. For SOEs they will not do it because its political suicide. For private sector if you dare to do that, even if you manage to do it you will know the consequences of it. So if you do... then don't let anyone know or move overseas resources to do it. Don't bother the state at all. They will also have areas of promotion as well, they will encourage you to do that and if you fall in that general direction then you really have preferential financial backing; you will have easier approval process within the state departments.</p>
I:	<p><b>OK, thank you so much for taking the time to participant in this research, the information you have provided has been really insightful.</b></p>

END.

## Appendix 2.5

Table 6. The list of potential interview questions adopted by this research

Research questions	Potential interview questions	
1. Warm up question	WQ1. Have you witnessed any recent developments in the Chinese M&A field? WQ2. What do you think the motivations are for Chinese cross-border M&A?	
2. <i>What are the distinctive features of the institutionalization process in the China specific context?</i>	RQ2-(1) National level	Q1 How significant is the century of humiliation to the Chinese people? Q2 Does China feel a responsibility to revive its nation?
	RQ2-(2) Organizational level	Q1 Do you think SOEs have a degree of pride in carrying out overseas investments? Q2 Are SOEs nationalistic organizations? Q3 Are SOEs driven to carry out state orders?
	RQ2-(3) Individual level	Q1 What motivate SOEs leaders to fulfill state plans? Q2 Are SOE leaders members of the Communist party?
3. <i>How does the Chinese-style institutionalization process facilitate the unique characteristics of cross-border M&amp;A activities by Chinese state owned enterprises (SOEs)?</i>	RQ3-(1) National level	Q1 How involved are the Chinese government in cross-border acquisition? Q2 Can you explain the M&A process? Q3 The idea to conduct an M&A – where does it come from?
	RQ3-(2) Organizational level	Q2 To what extent must the SOEs deals be profit driven vs. socially driven? Q2 How much freedom do SOEs have? Q3 What is the global reputation of Chinese SOEs?
	RQ3-(3) Individual level	Q1 Who chooses the SOE managers? Q2 Post successful M&A, what will happen to the SOE manager? Q3 How capable are Chinese managers?
4. Concluding questions	CQ1. Is there anything you consider important that you would like to add?	

Notes: *Questions were subject to change on the day of the interviews and were asked in no particular order.*

# Bibliography

- AIIB (Asian Investment Infrastructure Bank). (2018). Members of the Bank - AIIB. Retrieved from <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>
- Aberbach, J. D., & Rockman, B. A. (2002). Conducting and Coding Elite Interviews. *Political Science and Politics*, 35(4), 673–673.
- Alderman, L. (2018). Its Eye on China, Britain Pushes Back on Foreign Takeovers. *Bloomberg*. Retrieved from <https://www.nytimes.com/2018/07/24/business/uk-china-takeovers-national-security.html>
- Amighini, A., & Rabellotti, R. (2013). Do Chinese state-owned and private enterprises differ in their internationalization strategies. *China Economic Review*, 27, 312–325.
- Anand, J., Capron, L., & Mitchell, W. (2005). Using acquisitions to access multinational diversity: thinking beyond the domestic versus cross-border M&A comparison. *Industrial and Corporate Change*, 14(2), 191–224.
- Anderson, J., & Sutherland, D. (2015). Entry mode and emerging market MNEs: An analysis of Chinese greenfield and acquisition FDI in the United States. *Research in International Business and Finance*, 35, 88–103.
- Angelis, A., & Kanavos, P. (2016). Large scale mergers and acquisitions in the pharmaceutical industry: 1 + 1 = 1? *Working Paper LSE*.
- Annells, M. (1996). Grounded theory method: Philosophical perspectives, paradigm of inquiry, and postmodernism. *Qualitative Health Research*, 6(3), 379–393.
- Asplund, M., & Kjellesvik, M. (2012). Bid Premium in Chinese outbound M&A. *BI Norwegian School of Management*.
- Azari, J. R., & Smith, J. K. (2012). Unwritten Rules: Informal Institutions in Established Democracies. *Perspectives on Politics*, 10(2), 37–55.
- Baker McKenzie. (2017). New Restrictions on China Outbound Investments. *Baker McKenzie*. Retrieved from <https://www.bakermckenzie.com/en/insight/publications/2017/01/new-restrictions-china-outbound-investments>
- Barbieri, E., Tommaso, M. R., & Huang, M. (2010). Industrial development policy and innovation in Southern China: Government targets and firms' behavior. *European Planning Studies*, 18(1), 83–105.

- Barley, S. R., & Tolbert, P. S. (1997). Institutionalization and Structuration: Studying the links between action and institution. *Organization Studies*, 18(1), 93–117.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.
- Baxter, P., & Jack, S. (2008). Qualitative case study methodology: Study design and implementation for novice researchers. *The Qualitative Report*, 13(4), 544–559.
- Bell, D. E., & Kindred, N. (2016). *COFCO*. Harvard Business School case. Retrieved from <https://www.hbs.edu/faculty/pages/item.aspx?num=50331>
- Benn, C. D. (2004). *China's Golden Age: Everyday Life in the Tang Dynasty*. Oxford University Press USA.
- Berger, P. L., & Luckmann, T. (1967). *The Social Construction of Reality*. New York: Doubleday.
- Bernard, R. H. (2006). *Research Methods in anthropology* (4<sup>th</sup> edition). Altamira.
- Blaikie, N. (2007). *Approaches to social enquiry: Advancing knowledge*. Cambridge Polity Press.
- Blaikie, N. (2009). *Designing Social Research: The logic of anticipation* (2nd edition). Cambridge: Polity Press.
- Boateng, A., Bi, X., & Brahma, S. (2017). The impact of firm ownership, board monitoring on operating performance of Chinese mergers and acquisitions. *Review of Quantitative Finance and Accounting*, 49(4), 925–948.
- Boter, H., & Holmquist, C. (1996). Industry characteristics and internationalization processes in small firms. *Journal of Business Venturing*, 11(6), 471–487.
- Bradsher, K. (2017). How China lost \$1 trillion. *The New York Times*. Retrieved from <https://www.nytimes.com/interactive/2017/02/07/business/china-bank-foreign-reserves.html>
- Brødsgaard, K. E., Hubbard, P., Cai, G., & Zhang, L. (2017). China's SOE Executives: Drivers of or Obstacles to Reform? *The Copenhagen Journal of Asian Studies*, 35(1).
- Brouthers, K. D. (2002). Institutional, cultural and transaction cost influence on entry model choice and performance. *Journal of International Business Studies*, 33(2), 203–221.

- Bruce-Lockhart, A. (2017). China's \$900 billion New Silk Road. What you need to know. Retrieved from <https://www.weforum.org/agenda/2017/06/china-new-silk-road-explainer/>
- Bruton, G. D., Ireland, R. D., & Ketchen, D. J. (2012). Towards a research agenda on the informal economy. *Academy of Management Perspectives*.
- Bryman, A., & Bell, E. (2015). *Business research methods*. Oxford University Press.
- Buckley, P., Clegg, J., Cross, A., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, 38(4), 499–518.
- Burke, J. R. (1997). Examining the validity structure of qualitative research. *Education*, 118(2), 282.
- Butler, N. (2017). Made in China – the world energy market of the future. *Financial Times*. Retrieved from <https://www.ft.com/content/c1ddb6e1-b9df-39f9-bcd5-ee97989928b3>
- Cadell, C. (2018). Chips down: China aims to boost semiconductors as trade war looms. *Reuters*. Retrieved from <https://www.reuters.com/article/us-usa-trade-china-chips/chips-down-china-aims-to-boost-semiconductors-as-trade-war-looms>
- Callanhan, W. A. (2016). China's "Asia Dream": The Belt Road Initiative and the new regional order. *Asian Journal of Comparative Politics*, 1(3), 226–243.
- Calomiris, C. W., Fisman, R., & Wang, Y. (2010). Profiting from government stakes in a command economy: Evidence from Chinese asset sales. *Journal of Financial Economics*, 96(3), 399–412.
- Cao, J., Lemmon, M., Pan, X., Qian, M., & Tian, G. (2013). Political Promotion, CEO Incentives, and the Relationship between Pay and Performance. *Management Science* (2018).
- Capron, L., & Mitchell, W. (2012). Why Chinese firm's cross-border deals fall apart. *Harvard Business Review*. Retrieved from <https://hbr.org/2012/11/why-chinese-firms-cross-border-deals-fall-apart>
- Casey, J., & Koleski, K. (2011). *Backgrounder: China's 12th five-year plan*. US-China Economic and Security Review Commission.
- Caves, R. E. (1989). Mergers, takeovers, and economic efficiency: Foresight vs. hindsight. *International Journal of Industrial Organization*, 7(1), 151–174.
- Chacar, A., & Vissa, B. (2005). Are emerging economies less efficient? Performance, persistence, and the impact of business group affiliation. *Strategic Management Journal*, 26, 933–946.

- Chacar, A., Celo, S., & Hesterly, W. (2017). Change dynamics in institutional discontinuities: Do formal or informal institutions change first? Lessons from rule changes in professional American baseball. *Business History*, 60 (5), 728-753
- Charmaz, K. (2006). *Constructing Grounded Theory*. Sage publications.
- Charmaz, K., & Belgrave, L. L. (2007). *Grounded theory*. The Blackwell encyclopedia of sociology.
- Chatham House. (2018). Chatham House Rule FAQ. Retrieved from <https://www.chathamhouse.org/chatham-house-rule-faq>
- Chatterjee, S. (1986). Types of Synergy and Economic Value: The Impact of Acquisitions on Merging and Rival Firms. *Strategic Management Journal*, 7(2), 119–139.
- Chatterjee, S., & Birger, W. (1991). The link between resources and type of diversification: Theory and evidence. *Strategic Management Journal*, 12(1), 33–48.
- Chatzkel, J., & Ng, A. W. (2013). The emergence of contemporary Chinese enterprise: The heterogeneity of national culture, corporate controls and integration approaches in M&As. *Thunderbird International Business Review*, 55.5 (2013): 593-608.
- Chazan, G. (2018). Backlash grows over Chinese deals for Germany's corporate jewels. *The Financial Times*. Retrieved from <https://www.ft.com/content/391637d2-215a-11e8-a895-1ba1f72c2c11>
- Chen, G., Firth, M., & Xu, L. (2009). Does the type of ownership control matter? Evidence from China's listed companies. *Journal of Banking and Finance*, 33, 171–181.
- Child, J., & Rodrigues, S. (2005). The Internationalization of Chinese Firms: A Case for Theoretical Extension? *Management and Organization Review*, 1(3), 381–410.
- Child, J., Lu, Y., & Tsai, T. (2007). Institutional Entrepreneurship in Building an Environmental Protection System for the People's Republic of China. *Organization Studies*, 28(7), 1013–1034.
- China FTA Network MOFCOM. (2018) China – ASEAN FTA. Retrieved from [http://fta.mofcom.gov.cn/enarticle/chinadmen/endmnews/201608/33077\\_1.html](http://fta.mofcom.gov.cn/enarticle/chinadmen/endmnews/201608/33077_1.html)
- Choi, E. K. (2012). Patronage and performance: factors in the political mobility of provincial leaders in post-Deng China. *The China Quarterly*, 212, 965–981.

- Choudhury, S. R. (2017). Chinese M&A: China outbound mergers and acquisitions to rise in 2018. Retrieved from <https://www.cnn.com/2017/11/12/chinese-ma-china-outbound-mergers-and-acquisitions-to-rise-in-2018.html>
- Chugani, M. (2017). Why Xi Jinping's Chinese dream is nothing like the American one. *South China Morning Post*. Retrieved from <https://www.scmp.com/comment/insight-opinion/article/2117915/why-xi-jinpings-chinese-dream-nothing-american-one>
- Cicenia, A. (2017). China's Inbound and Outbound FDI Goals. Retrieved from <http://www.china-briefing.com/news/chinas-inbound-and-outbound-fdi-goals/>
- Communist Party China national congress (2017) Full text of Xi Jinping's report at 19<sup>th</sup> CPC national congress, Retrieved from [http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/201711/04/content_34115212.htm)
- Connor, N. (2018). Why Britain is cosying up to China: Beef, plastic and free-trade. *The Telegraph*. Retrieved from <https://www.telegraph.co.uk/news/2018/01/30/britain-cosying-china-beef-plastic-free-trade/>
- Creswell, J. (1998). *Qualitative Inquiry and Research Design. Choosing among five traditions*. Thousand Oaks, CA: Sage.
- Cui, L., & Jiang, F. (2010). Behind ownership decision of Chinese outward FDI: Resources and institutions. *Asia Pacific Journal of Management*, 27(4), 751–774.
- Cui, L., & Jiang, F. (2012). State ownership effect on firms' FDI ownership decisions under institutional pressure: a study of Chinese outward-investing firms. *Journal of International Business Studies*, 45, 264–284.
- Cull, R., & Xu, C. (2003). Who gets credit? The behavior of bureaucrats and state banks in allocating credit to Chinese state-owned enterprises. *Journal of Development Economics*, 71(2), 533–559.
- Dau, L. A., & Cuervo-Cazurra, A. (2014). To formalize or not to formalize: Entrepreneurship and pro-market institutions. *Journal of Business Venturing*, 29, 668–686.
- Deng, P. (2007). Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies. *Business Horizons*, 50(1), 71–81.
- Deng, P. (2009). Why do Chinese Firms Tend to Acquire Strategic Assets in International Expansion. *Journal of World Business*, 44, 74–84.



- Deng, P. (2010). Absorptive capacity and a failed cross-border M&A. *Management Research Review*, 33(7), 673–682.
- Deng, P. (2010). What determines performance of cross-border M&As by Chinese companies? An absorptive capacity perspective. *Thunderbird International Business Review*, 52(6), 509–524.
- DeRose, K. (2005). What is epistemology. A brief introduction to the topic. *Yale University*, 20.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147–160.
- Dollar, D. (2015). *China's rise as a regional and global power: The AIIB and the "one belt, one road."* Brookings. Retrieved from <https://www.brookings.edu/research/chinas-rise-as-a-regional-and-global-power-the-aiib-and-the-one-belt-one-road/>
- Du, M., & Boateng, A. (2015). State ownership, institutional effects and value creation in cross-border mergers & acquisitions by Chinese firms. *International Business Review*, 24, 430–442.
- EEAS. (2013). *EU-China 2020 strategic agenda for cooperation*. EEAS. Retrieved from <https://eeas.europa.eu/sites/eeas/files/20131123.pdf>
- Eberhard, W. (2013). *A history of China*. Routledge.
- Elek, A. (2014). The potential role of the Asian Infrastructure Investment Bank. *East Asian Forum*, 11.
- Erdener, C., & Shapiro, D. M. (2005). The internationalization of Chinese family enterprises and Dunning's eclectic MNE paradigm. *Management and Organization Review*, 1(3), 411–436.
- Erwin, T., Glunz, A., & Tsavlakidis, I. (2017). *Industry 4.0 – Starting the next industrial revolution in Germany*. Retrieved from <https://home.kpmg.com/de/en/home/insights/2017/12/industry-4-0-industrial-revolution-in-germany.html>
- Eschen, E., & Bresser, R. (2005). Closing resource gaps: toward a resource-based theory of advantageous mergers and acquisitions. *European Management Review*, 2, 167–178.
- European Commission. (2017). China - Trade. Retrieved from [http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/index\\_en.htm](http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/index_en.htm)
- Fairbank, J. K., & Goldman, M. (2006). *China: A New History* (2<sup>nd</sup> edition). Cambridge; London: The Belknap Press of Harvard University Press.

- Farrell, J., & Shapiro, C. (2000). Scale economies and synergies in horizontal merger analysis. *Antitrust LJ*, 68, 685.
- Fay, P. W. (1975). The Opium War, 1840-1842: Barbarians in the Celestial Empire in the Early Part of the Nineteenth Century and the War by which they Forced Her Gates Ajar. *The University of North Carolina Press*,
- Ferdinand, P. (2016). Westward ho—the China dream and “one belt, one road”: Chinese foreign policy under Xi Jinping. *International Affairs*, 92(4), 941–957.
- Foddy, W. (1994). *Constructing questions for interviews and questionnaires: Theory and practice in social research*. Cambridge university press.
- Fricker, R. D., & Schonlau, M. (2002). Advantages and disadvantages of Internet research surveys: Evidence from the literature. *Field Methods*, 14(4), 347–367.
- Fuller, K., Netter, J., & Stegemoller, M. (2002). What Do Returns to Acquiring Firms Tell Us? Evidence from Firms that Make Many Acquisitions. *The Journal of Finance*, 12(4).
- Fuller, S. (2007). *Social epistemology*. Blackwell Encyclopedia of Sociology.
- Gang, F., & Hope, N. (2013). The role of state-owned enterprises in the Chinese economy. *China-United States Exchange Foundation*.
- Gao, L., Liu, X., & Eleni, L. (2015). A double-edged sword: the impact of institutions and political relations on the international market expansion of Chinese state-owned enterprises. *Journal of Chinese Economic and Business Studies*, 13(2), 105–125.
- Gaur, A. S., Kumar, V., & Singh, D. (2014). “Institutions, resources, and internationalization of emerging economy firms.” *Journal of World Business*, 49(1), 12–20.
- Gilley, B. (2008). Legitimacy and Institutional Change: The case of China. *Comparative Political Studies*, 41(3), 259–284.
- Glaser, B. G., & Holton, J. A. (2004). Remodeling grounded theory. *Qualitative Social Research*, 5(2).
- Global Development Policy Center. (2017). China’s Global Energy Finance. Retrieved from <http://www.bu.edu/gdp/>
- Golafshani, N. (2003). Understanding reliability and validity in qualitative research. *The Qualitative Report*, 8(4), 597–606.

- Gonzalez-Vicente, R. (2012). Mapping Chinese Mining Investment in Latin America: Politics or Market. *The China Quarterly*, 209, 35–58.
- Grant, R. M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California Management Review*, 33(3), 114–135.
- Greenwood, R., & Suddaby, R. (2006). "Institutional entrepreneurship in mature fields: The big five accounting firms. *Academy of Management Journal*, 49(1), 27–48.
- Gries, P. H., Zhang, Q., Crownson, M., & Ca, H. (2011). Patriotism, nationalism and China's US policy: structures and consequences of Chinese national identity. *The China Quarterly*, 205, 1–17.
- Grzymala-Busse, A. (2010). The best laid plans: the impact of informal rules on formal institutions in transitional regimes. *St Comp Int Dev*, 45, 311–333.
- Gu, L., & Reed, R. W. (2016). Does financing of Chinese mergers and acquisitions have "Chinese characteristics"? *Economic Letters*, 139, 11–14.
- Guest, G., Bunce, A., & Johnson, L. (2006). How many interviews are enough? An experiment with data saturation and variability. *Field Methods*, 18(1), 59–82.
- Guillemin, M., & Gillam, L. (2004). Ethics, reflexivity, and ethically important moments. *Qualitative Inquiry*, 10(2), 261–280.
- Guo, W., Clougherty, J., & Duo, T. (2016). Why Are Chinese MNEs Not Financially Competitive in Cross-border Acquisitions? The Role of State Ownership. *Long Range Planning*, 49(5), 614–631.
- Hagett, S. (2009). China's Sinopec to buy Addax for C\$8.27 billion. Retrieved from <https://www.reuters.com/article/us-addax-sinopec/chinas-sinopec-to-buy-addax-for-c8-27-billion-idUSTRE55N59I20090625>
- Han, E. (2017). China's peaceful rise: perceptions, policy and misperceptions. *Cambridge Review of International Affairs*, 30(5–6), 583–585.
- He, L. (2018). China lists "sensitive sectors" as it tightens overseas investment curbs. *South China Morning Post*. Retrieved from <https://www.scmp.com/business/banking-finance/article/2132934/china-lists-sensitive-sectors-it-tightens-curbs-overseas>
- Helmke, G., & Levitsky, S. (2004). Informal institutions and comparative politics: A research agenda. *Perspectives on Politics*, 2(4), 725–740.
- Hillman, J. (2018). How Big Is China's Belt and Road? [CSIS]. Retrieved from <https://www.csis.org/analysis/how-big-chinas-belt-and-road>

- Hitt, M. A., & Xu, K. (2016). The Transformation of China: Effects of the Institutional Environment on Business Actions. *Long Range Planning*, 49, 589–593.
- Holton, J. A. (2007). The coding process and its challenges. *The Sage Handbook of Grounded Theory Part III*.
- Hong, E., & Sun, L. (2006). Dynamics of internationalization and outward investment: Chinese corporations' strategies. *The China Quarterly*, 187, 610–634.
- Hope, O.K., Thomas, W., & Vyas, D. (2011). The cost of pride: Why do firms from developing countries bid higher? *Journal of International Business Studies*, 42, 128–151.
- Hout, T., & Michael, D. (2014). A Chinese Approach to Management. *Harvard Business Review*, Retrieved from <https://hbr.org/2014/09/a-chinese-approach-to-management>
- Hsu, S. (2017). Foreign Firms Wary Of “Made In China 2025,” But It May Be China’s Best Chance At Innovation. *Forbes*. Retrieved from <https://www.forbes.com/sites/sarahsu/2017/03/10/foreign-firms-wary-of-made-in-china-2025-but-it-may-be-chinas-best-chance-at-innovation/#77156e3624d2>
- Hu, A. (2013). The Distinctive Transition of China’s Five-Year Plans. *Modern China*, 39(6), 629–639.
- IMF. (2018). World economic outlook 2018. Retrieve, from [https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/weorept.aspx?sy=2017&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=512%](https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/weorept.aspx?sy=2017&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=512%20)
- Jakobsen, J., & Jakobsen, T. G. (2011). Economic nationalism and FDI: The impact of public opinion on foreign direct investment in emerging markets, 1990–2005. *Society and Business Review*, 6(1), 61–76.
- Jin, K. (2014). The China Dream Vs. The American Dream. *The Diplomat*. Retrieved from <https://thediplomat.com/2014/09/the-china-dream-vs-the-american-dream/>
- John, A. (2017). Chinese conglomerates to continue targeting overseas financial institutions. *South China Morning Post*.
- Jones, L., & Zou, Y. (2017). Rethinking the role of the state-owned enterprises in China’s rise. *New Political Economy*, 22(6), 743–760.
- Karolyi, G. A., & Liao, R. C. (2010). What is different about government-controlled acquires in cross-border acquisitions?

- Kaufman, A. A. (2010). The "Century of Humiliation," Then and Now: Chinese Perceptions of the International Order. *Pacific Focus*, 25(1), 1–33. <https://doi.org/10.1111/j.1976-5118.2010.01039.x>
- Kerr, D. (2015). *"China's many dreams' Comparative perspectives on China's search for national rejuvenation* (2015 edition). Palgrave.
- Khavul, S., Bruton, G. D., & Wood, E. (2009). Informal family business in Africa. *Entrepreneurship: Theory & Practice*, 33(6), 1219–1238.
- Klein, J. X. (2018). ZTE pays US\$1 billion fine as Senate moves to block Trump's settlement deal. *South China morning post*. Retrieved from <http://www.scmp.com/tech/article/2151478/zte-drops-25-pc-after-us-lawmakers-advance-effort-restore-export-ban>
- Knoerich, J. (2010). Gaining from the global ambitions of emerging economy enterprises: An analysis of the decision to sell a German firm to a Chinese acquirer. *Journal of International Management*, 16(2), 177–191.
- Koreen, M. (2018). *Mergers & Acquisition: A review*. Thompson Reuters. Retrieved from <https://www.thomsonreuters.co.jp/content/dam/openweb/documents/pdf/japan/market-review/2018/ma-2q-2018-en.pdf>
- Kuhn, T. S. (1970). "Logic of discovery or psychology of research." (1970): 1-23. *Criticism and the Growth of Knowledge*, 1–23.
- Kynge, J. (2017). China goes on logistics buying spree to support "new Silk Road." *The Financial Times*. Retrieved from <https://www.ft.com/content/8a0f1296-dc39-11e7-a039-c64b1c09b482>
- Lambrecht, B. M. (2004). The timing and terms of mergers motivated by economies of scale. *Journal of Financial Economics*, 72(1), 41–62.
- Larson, C. (2013). How Resource Scarcity Constrains China. *Bloomberg*. Retrieved from <https://www.bloomberg.com/news/articles/2013-10-07/how-resource-scarcity-constrains-china>
- Larsson, R., & Finkelstein, S. (1999). Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquisitions: A Case Survey of Synergy Realization. *Organization Science*, 10(1), 1–26.
- Lee, A. S. (1991). Integrating positivist and interpretive approaches to organizational research. *Organization Science*, 2(4), 342–365.
- Lee, C.K., & Hung, S.C. (2014). Institutional entrepreneurship in the informal economy: China's Shan-Zhai mobile phones. *Strategic Entrepreneurship Journal*, 8, 16–36.
- Lei, H. (2017). The ghost of China's part: How the century of humiliation influences

China's naval build up. *Brown Political Review*. Retrieved from <http://www.brownpoliticalreview.org/2017/11/ghost-chinas-past-century-humiliation-influences-chinas-naval-buildup/>

- Leutert, W. (2018). The Political Mobility of China's Central State-Owned Enterprise Leaders. *The China Quarterly*, 233, 1–21.
- Li, E. (2017). China, America, and “Nationalism.” *American Affairs Journal*. Retrieved from <https://americanaffairsjournal.org/2017/10/china-america-nationalism/>
- Li, F., & Ding, D. Z. (2013). The effect of institutional isomorphic pressure on the internationalization of firms in an emerging economy: evidence from China. *Asia Pacific Business Review*, 19(4), 506–525.
- Li, X., & Brødsgaard, K. E. (2013). SOE reform in China: past, present and future. *Copenhagen Journal of Asian Studies*, 31(23), 54–78.
- Li, Q., & Liang, G. (2012). Political relations and Chinese outbound direct investment: Evidence from firm-and dyadic-level tests. *Research Center for Chinese Politics and Business*, 19.
- Lin, J., Y. Cai, F., & Li, Z. (1998). Competition, Policy Burdens, and State-Owned Enterprise Reform. *American Economic Association*, 88(2), 422–427.
- Lin, J. Y., Cai, F., & Zhou, L. (2003). *The China miracle: Development strategy and economic reform*. Chinese University Press.
- Lin, J. (2004). Lessons of China's Transition from a Planned Economy to a Market Economy. *Leon Koźmiński Academy of Entrepreneurship and Management*, 1–45
- Lin, J. Y. (2013). China's Economic Development and Cultural Renaissance in the Multipolar Growth World of the 21st Century. *China Economic Journal*, 6(1).
- Liu, Q., Luo, T., & Tian, G. (2017). How do political connections cause SOE s and non-SOE s to make different M&A decisions/performance? Evidence from China. *Accounting & Finance*, 2017.
- Liu, Y., & Woywode, M. (2013). Light-Touch Integration of Chinese Cross-Border M&A: The Influences of Culture and Absorptive Capacity. *Thunderbird International Business Review*, 55(4), 469–483.
- Luo, Y., Xue, Q., & Han, B. (2010). How emerging market governments promote outward FDI: Experience from China. *Journal of World Business*, 45(1), 68–79.
- Maddison, A. (2006). *The World Economy*. Organization for Economic Cooperation and Development.

- Madill, A., Jordan, A., & Shirley, C. (2000). Objectivity and reliability in qualitative analysis: Realist, contextualist and radical constructionist epistemologies. *British Journal of Psychology*, 9(1), 1–20.
- Malkin, A. (2018). Made in China 2025 as a Challenge in Global Trade Governance. *Centre for International Governance Innovation*, 183.
- Mallette, F., & Goddard, J. (2018). Why Companies Are Using M&A to Transform Themselves, Not Just to Grow. *Harvard Business Review*. Retrieved from <https://hbr.org/2018/05/why-companies-are-using-ma-to-transform-themselves-not-just-to-grow>
- Manson, J. (1996). *Qualitative researching*. London: Sage.
- Mason, M. (2010). Sample Size and Saturation in PhD Studies Using Qualitative Interviews. *Qualitative Social Research*, 11(3).
- McDowell, L. (1998). Elites in the city of London: Some methodological considerations. *Environment and Planning*, 30, 2133–2146.
- McLeilan, E., MacQueen, K., & Neidig, J. L. (2003). Beyond the qualitative interview: Data preparation and transcription. *Field Methods*, 15(1), 63–84.
- Mergenthaler, E., & Stinson, C. (1992). Psychotherapy transcription standards. *Psychotherapy Research*, 2(2), 125–142.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *The American Journal of Sociology*, 83(2), 340–363.
- Meyer, R. E., & Hammerschmid, G. (2006). Changing institutional logics and executive identities. A managerial challenge to public administration in Austria. *The American Behavioural Scientist*, 49(7), 1000–1014.
- Ministry of Commerce. (2011). Development Plan for National-Level Economic and Technology Development Zones and Border Economic Cooperation Zones During the 12th Five Year Plan (2011-2015). Retrieved from <http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=b5b8873f1a898ceabdfb&lib=law>
- Ministry of Foreign Affairs of the People's Republic of China. (2014). *Xi Jinping Attends China-Latin America and the Caribbean Summit and Delivers Keynote Speech*, Retrieved from [https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpzxcxjzgjldrdlchwdxbxagtwnrlgbjxgsfwbcxzlldrhwt1176650.shtml](https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpzxcxjzgjldrdlchwdxbxagtwnrlgbjxgsfwbcxzlldrhwt1176650.shtml)
- Mitchell, T. (2017). China's Xi orders debt crackdown for state-owned groups. Retrieved from <https://www.ft.com/content/5a15ac98-69d5-11e7-bfeb-33fe0c5b7eaa>

- Moeller, S. B., & Schlingemann, F. (2005). Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking & Finance*, 29(3), 533–564.
- Montinola, G., Qian, Y., & Weingast, B. (1995). Federalism, Chinese style: the political basis for economic success in China. , 48(1), pp.50-81. *World Politics*, 48(1), 50–81.
- Morse, J. M. (2000). Determining sample size. *Research*, 10(1), 3-5. *Qualitative Health Research*, 10(1), 3–5.
- Morse, J. M., Barret, M. M., Olson, K., & Spiers, J. (2002). Verification strategies for establishing reliability and validity in qualitative research. *International Journal of Qualitative Methods*, 1(2), 13–22.
- Motis, J. (2007). Mergers and Acquisitions Motives. *Working Paper 0730*.
- Muralidharan, E., & Pathak, S. (2017). Informal institutions and international entrepreneurship. *International Business Review*, 26, 288–302.
- Myers, M. & Newman, M. (2007). The qualitative interview in IS research: Examining the craft. *Information and Organization*, 17(1), 2–26.
- Nasiripour, S. (2012). First US approval for Chinese bank purchase. *Financial Times*. Retrieved from <https://www.ft.com/content/26d2c476-9a0d-11e1-accb-00144feabdc0?mhq5j=e2>
- National Development and Reform Commission (NDRC). (2014). Administrative Measure for the Verification and Approval and Record-Filing of Outbound Investment Projects. Retrieved from <http://www.ndrc.gov.cn/fzgggz/flfg/flgz/201507/W020150702406621311421.pdf>
- National Development and Reform Commission. (2016). The 13<sup>th</sup> Five-Year Plan for economic and social development of The People's Republic of China (2016 – 2020). Retrieved from <http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>
- National Development and Reform Commission. (2018). Notice on issuing the text of supporting the format on enterprise overseas investment management: Catalogue of Overseas Investment Sensitive Industries (2018 Edition). Retrieved from <http://www.ndrc.gov.cn/fzgggz/flfg/flgz/201507/W020150702406621311421.pdf>
- National Development and Reform Commission and the Export-Import Bank of China. (2004). Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State. Retrieved from



<http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=87e36f4101983498bdf>

- Naughton, B. (2006). *The Chinese economy: Transitions and Growth*. MIT press.
- Naughton, B. (2017). The Current Wave of State Enterprise Reform in China: A Preliminary Appraisal. *Asian Economic Policy Review*, 12, 282–298.
- Nolan, P. (2001). *China and the Global Economy: National Champions, Industrial Policy and the Big Business Revolution*. New York: Palgrave.
- Nolan, P. (2010). China buys up the world. *The Economist*. Print edition.
- Nordin, A. H., & Weissmann, M. (2018). Will Trump make China great again? The belt and road initiative and international order. *International Affairs*, 94(2), 231–249.
- North, D. C. (1991). Institutions. *Journal of Economic Perspectives*, 5(1), 97–112.
- North, D. C. (1994). Economic performance through time. *The American Economic Review*, 84(3), 359–368.
- Quer, D., Claver, E., & Rienda, L. (2012). Political risk, cultural distance, and outward foreign direct investment: Empirical evidence from large Chinese firms. *Asia Pacific Journal of Management*, 29(4), 1089–1104.
- Pan, C. (2018). “Sensitive” Outbound-Investment List Finalized. *Caxin Global*. Retrieved from <https://www.caixinglobal.com/2018-02-12/sensitive-outbound-investment-list-finalized-101210889.html>
- Pandey, S. C., & Patnaik, S. (2014). Establishing reliability and validity in qualitative inquiry: a critical examination. *Journal of Development and Management Studies*, 12(1), 5743–5753.
- Parsons, T. (1956). Suggestions for a sociological approach to the theory of organizations. *Administrative Science Quarterly*, 1(1), 63–85.
- Pearson, M. (2005). The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State. *World Politics*, 57(2), 296–322.
- Pejovich, S. (1999). The effects of the interaction of formal and informal institutions on social stability and economic development. 2(2). *Journal of Markets and Morality*, 2(2), 164–181.
- Peng, M., & Wang, D. (2000). Innovation capability and foreign direct investment: Toward a learning option perspective. *Management International Review*, 40, 79–93.
- Peng, M. W. (2012). The global strategy of emerging multinationals from China. *Global Strategy Journal*, 2(2), 97–107.

- Perkins, D. H. (2018). Measuring China's economic reform progress. *China Economic Review*.
- Peyrefitte, A. (1993). *The Collision of Two Civilizations: The British Expedition to China 1792-4*.
- Polletta, F., & Jasper, J. M. (2001). Collective identity and social movements. *Annual Review of Sociology*, 27(1), 283–305.
- Potkin, F. (2018). Former Sinopec chairman sentenced to 16 years in prison. *Reuters*. Retrieved from <https://www.reuters.com/article/china-corruption/former-sinopec-chairman-sentenced-to-16-years-in-prison-for-graft-state-media-idUSB9N1U901O>
- Prasad, R. (2018). EU Ambassadors Condemn China's Belt and Road Initiative. *The Diplomat*. Retrieved from <https://thediplomat.com/2018/04/eu-ambassadors-condemn-chinas-belt-and-road-initiative/>
- Qi, C., & Zhang, J. X. (2018). The economic impacts of the China-Australia Free Trade Agreement - A general equilibrium analysis. *China Economic Review*, 47, 1–11
- Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal*, 2, 41–47.
- Ramasamy, B., Yeung, M., & Laforet, S. (2012). China's outward foreign direct investment: Location choice and firm ownership. *Journal of World Business*, 47(1), 17–25.
- Reddy, K., Xie, E., & Huang, Y. (2016). Cross-border acquisitions by state-owned and private enterprises: A perspective from emerging economies. *Journal of Policy Modeling*, 38, 1147–1170.
- Reischauer, E. O. (1974). The Sinic World in Perspective. *Foreign Affairs*, 52(2), 341–348. <https://doi.org/10.2307/20038053>
- Reynolds, J. (2008). China's National sentiment. Retrieved from [http://www.bbc.co.uk/blogs/thereporters/jamesreynolds/2008/07/national\\_sentiment.html](http://www.bbc.co.uk/blogs/thereporters/jamesreynolds/2008/07/national_sentiment.html)
- Richards, D. (1996). Elite interviewing: Approaches and Pitfalls. *Politics*, 16(3), 199–204.
- Roach, A. L. (2016). Spectrums of Nationalism: A Comparison of American and Chinese Nationalism. *Inquiries Journal*, 8(9).
- Robins, F. (2013). The uniqueness of Chinese outward foreign direct investment. *Asian Business & Management*, 12(5), 525–537.

- Robson, C. (1993). *Real world research. A resource for social scientists and practitioner researchers*. Blackwell Pub Ltd.
- Roller, L., Stennek, J., & Verboven, F. (2006). *Efficiency Gains from Mergers in European Merger Control: Do We Need and Efficiency Defense*. Edward Elgar (UK).
- Rui, H., & Yip, G. S. (2008). Foreign acquisitions by Chinese firms: A strategic intent perspective. *Journal of World Business*, 43(2), 213–226.
- SAFE (State Administration of Foreign Exchange). (2016). Notice of the State Administration of Foreign Exchange on Reforming the Management Method of Foreign Exchange Capital Settlement of Foreign-invested Enterprises. Retrieved from <https://www.safe.gov.cn/safe/2015/0408/5549.html>
- SAFE. (2018). Major Functions of State Administration of Foreign Exchange [SAFE agency]. Retrieved from <http://www.safe.gov.cn/en/MajorFunctions/index.html>
- SASAC (State-owned Assets Supervision and Administration Commission). (2018). Directory Names. Retrieved from <http://en.sasac.gov.cn/directorynames.html>
- SASAC (2018). SASAC is an institution directly under the management of the state council, its responsibilities include. Retrieved from [http://en.sasac.gov.cn/2018/07/17/c\\_7.htm](http://en.sasac.gov.cn/2018/07/17/c_7.htm)
- SASAC. (2018). Personnel adjustment of central enterprises, change of duties of 48 leaders of 22 central enterprises. <http://www.sasac.gov.cn/n2588025/n2588164/n4437287/c9245182/content.html>
- Salidjanova, N. (2011). *Going out: An overview of China's outward foreign direct investment*. Washington: US-China Economic and Security Review Commission.
- Salter, M. S., & Weinhold, W. A. (1978). Diversification via Acquisition: Creating Value. *Harvard Business Review*, Retrieved from <https://hbr.org/1978/07/diversification-via-acquisition-creating-value>
- Sauerwald, S., & Peng, M. W. (2013). Informal institutions, shareholder coalitions, and principal–principal conflicts. *Asia-Pacific Journal Management*, 30, 853–870.
- Saul, J., Trompiz, G., & Gu, H. (2018). China's COFCO makes painful cuts in drive to lead global food trade. *Reuters*. Retrieved from <https://www.reuters.com/article/us-china-cofco-strategy-insight/chinas-cofco-makes-painful-cuts-in-drive-to-lead-global-food-trade-idUSKBN1F11FT>

- Sauvant, K. P., & Chen, V. Z. (2014). China's regulatory framework for outward foreign direct investment. *China Economic Journal*, 7(1), 141–163.
- Schuller, M., & Turner, A. (2005). Global Ambitions: Chinese Companies Spread Their Wings. *China Aktuell*, 4.
- Schutz, A. (1962). Common-sense and scientific interpretation of human action. *Collected Papers I. Springer, Dordrecht*, 3–47.
- Schweizer, D., Walker, T., & Zhang, A. (2017). Cross-border acquisitions by Chinese enterprises: The benefits and disadvantages of political connections. *Journal Corporate Finance*.
- Scott, R. W. (1987). The adolescence of Institutional theory. *Administrative Science Quarterly*, 32(4), 493–511.
- Scott, R. W. (2004). Institutional Theory: Contributing to a theoretical research program.
- Seale, C. (1999). Seale, Clive. "Quality in qualitative research." *Qualitative inquiry* 5.4 (1999): 465-478. *Qualitative Inquiry*, 5(4), 465–478.
- Seth, A. (1990). Value creation in acquisitions: A re-examination of performance issues. *Strategic Management Journal*, 11, 99–115.
- Shambaugh, D. (2013). *China goes global: The partial power*. OUP USA.
- Shang, X. (2013). Xi Jinping and the Chinese dream. *The Economist*. Retrieved from <https://www.economist.com/news/leaders/21577070-vision-chinas-new-president-should-serve-his-people-not-nationalist-state-xi-jinping>
- Singh, H., & Montgomery, C. A. (1987). Corporate Acquisition Strategies and Economic Performance. *Strategic Management Journal*, 8(4), 377–386.
- Sinopec. (2011). *Sinopec 2011 Annual report*. Retrieved from <http://www.sinopecgroup.com/group/en/Resource/pdf/ResponsibilityReport2011en.pdf>
- Sleznick, P. (1996). Institutionalism“ old” and" new. *Administrative Science Quarterly*, 270–277.
- Snape, D., & Spencer, L. (2003). *The foundations of qualitative research: Research Practice*. Sage.
- State Council. (2001). Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development. Retrieved from [http://www.gov.cn/english/official/2005-07/29/content\\_18334.htm](http://www.gov.cn/english/official/2005-07/29/content_18334.htm)
- State Council. (2014). Notice of the General Office of the State Council on Issuing

- the Program of Action for the Energy Development Strategy (2014-2020). Retrieved from <http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=5f8e90c006bb1fa8bdfb&lib=law>
- State Council. (2015). Notice of the State Council on Issuing the “Made in China (2025).” Retrieved from <http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=826a5000ff214a60bdfb&lib=law>
- State Council. (2017). Notice of the General Office of the State Council on Forwarding the Guiding Opinions of NDRC, MOFCOM, PBOC and MFA on Further Guiding and Regulating the Direction of Outbound Investments, Retrieved from [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)
- State Council. (2017). The General Office of the State Council forwarded the notice of the Ministry of Foreign Affairs of the Ministry of Commerce of the People’s Bank of the Ministry of Commerce on the guidance and guidance on further guiding and regulating the direction of overseas investment. Retrieved from [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)
- State Development & Reform Commission. (2006). The Eleventh Five-year Plan on Utilization of Foreign Investments. Retrieved from <http://en.pkulaw.cn.ezproxy.soas.ac.uk/display.aspx?id=38075ad8cfbe4e05bdfb&lib>
- Steele, L. G., & Lynch, S. M. (2013). The Pursuit of Happiness in China: Individualism, Collectivism, and Subjective Well-Being During China’s Economic and Social Transformation. *Social Indicators Research*, 114(2), 441–451.
- Strauss, A., & Corbin, J. (1994). Grounded theory methodology. In *Grounded theory methodology*. (pp. 273–285).
- Strauss, A., & Corbin, J. (1997). *Grounded theory in practice*. Sage.
- Suchman, M. C. (1995). Managing Legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571–610.
- Sui-Lee, W. (2017). China Steps Up Warnings Over Debt-Fueled Overseas Acquisitions. *The New York Times*. Retrieved from <https://www.nytimes.com/2017/08/18/business/dealbook/china-companies-deals-debt.html>
- Summers, T. (2015). What exactly is “one belt, one road?” *The World Today*, 71(5).

- Sun, S. L., Peng, M. W., Ren, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business*, 47(1), 4–16.
- Swaine, M. D. (2015). Chinese views and commentary on the “One Belt, One Road” initiative. *China Leadership Monitor*, 42(7).
- Tansey, O. (2007). Process Tracing and Elite Interviewing: A Case for Non-probability Sampling. *Political Science and Politics*, 40(4).
- Tartar, A., Rojanasakul, M., & Diamond, J. S. (2018). <https://www.bloomberg.com/graphics/2018-china-business-in-europe/>. *Bloomberg*. Retrieved from <https://www.bloomberg.com/graphics/2018-china-business-in-europe/>
- Teece, D. J. (1980). Economies of Scope and the Scope of the Enterprise. *Journal of Economic Behavior & Organization*, 1(3).
- Thai, M. T. T., & Turkina, E. (2014). Macro-level determinants of formal entrepreneurship versus informal entrepreneurship. *Journal of Business Venturing*, 29, 490–510.
- Theil, S. (2012). The US could learn from Germany’s high-tech manufacturing. *Scientific American*. Retrieved from <https://www.scientificamerican.com/article/us-could-learn-germany-high-tech-manufacturing/>
- Thomas, D., & Price, M. (2016). When deals go bad: China state firm managers spooked by new rules. *Reuters*. Retrieved from <https://www.reuters.com/article/us-china-soe-m-a-idUSKCN11W2LW>
- Thurmond, V. (2001). The point of triangulation. *Journal of Nursing Scholarship*, 33(3), 253–258.
- Timperley, J. (2018). China leading on world’s clean energy investment, says report. *Carbon Brief*. Retrieved from <https://www.carbonbrief.org/china-leading-worlds-clean-energy-investment-says-report>
- Tsang, A. (2017). China Moves a Step Forward in Its Quest for Food Security. *The New York Times*. Retrieved from <https://www.nytimes.com/2017/04/05/business/syngenta-chemchina-takeover.html>
- Tsin, M. (1995). Timeline of Chinese History and Dynasties. Retrieved October 18, 2018, from [http://afe.easia.columbia.edu/timelines/china\\_timeline.htm](http://afe.easia.columbia.edu/timelines/china_timeline.htm)
- Tung, R. L. (2016). Opportunities and Challenges Ahead of China’s “New Normal.” *Long Range Planning*, 49, 632–640.

- Twitchett, D. C., Fairbank, J. K., & Feuerwerker, A. (1978). *The Cambridge History of China* (Vol. 1991). Cambridge University Press.
- UNCTAD. (2006). *UNCTAD, World Investment Report 2010: FDI from Developing and Transition Economies: Implications for Development*. New York: United Nations Press. Retrieved from [http://www.unctad.org/en/docs/wir2006\\_en.pdf](http://www.unctad.org/en/docs/wir2006_en.pdf)
- UNCTAD. (2017). World Investment Report 2017: Annex Tables. Retrieved from <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>
- Wang, C. (2012). What Drives Outward FDI of Chinese Firms? Testing the Explanatory Power of Three Theoretical Frameworks. *International Business Review*, 21, 425–438.
- Wang, L., & Zajac, E. J. (2007). Alliance or Acquisition? A Dyadic Perspective on Inter-firm Resource Combinations. *Strategic Management Journal*, 28(13), 1291–1317.
- Wang, Z. (2014). The Chinese dream: Concept and context. *Journal of Chinese Political Science*, 19(1), 1–13.
- Wasserstrom, J. (2015). Here's Why Xi Jinping's "Chinese Dream" Differs Radically From the American Dream. *TIME*. Print edition.
- Webb, J., Tihanyi, L., Ireland, R. D., & Sirmon, D. G. (2009). You say illegal, I say legitimate: Entrepreneurship in the informal economy. *Academy of Management Review*, 34(3), 492–510.
- Webb, J., Bruton, G. D., Tihanyi, L., & Ireland, R. D. (2013). Research on entrepreneurship in the informal economy: Framing a research agenda. *Journal of Business Venturing*, 28, 598–614.
- Wildau, G. (2016). China's state-owned zombie economy. *Financial Times*. Retrieved from <https://www.ft.com/content/253d7eb0-ca6c-11e5-84df-70594b99fc47>
- Wildau, G. (2016). Why China is cracking down on outbound deals. *The Financial Times*. Retrieved from <https://www.ft.com/content/3238c656-b6ac-11e6-ba85-95d1533d9a62>
- Williamson, O. E. (2000). The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature*, 38(3), 595–613.
- World Bank (The). (2009). *China's 11th Five Year Plan so far - Progress in Several Areas, but Important Challenges Remain, Including on Overall Rebalancing*. World Bank. Retrieved from

<http://www.worldbank.org/en/news/pressrelease/2009/02/12/chinas-11th-five-year-plan-so-far-progress-several-areas-important-challenges-remain-including-overall-rebalancing-says-world-bank-report>

- World Bank (The). (2018). GDP growth annual percentage. Retrieved from <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN>
- World Bank (The). (2018). China Overview. Retrieved from <http://www.worldbank.org/en/country/china/overview>
- Wu, C., & Xie, N. (2010). Determinants of Cross-Border M&A performance of China Enterprises. *Procedia Social and Behavioral Sciences*, 2, 6896–6905.
- Wu, J., Wang, C., Hong, J., Piperopoulos, P., & Zhuo, S. (2016). Internationalization and innovation performance of emerging market enterprises: The role of host-country institutional development. *Journal of World Business*, 51, 251–263.
- Wübbecke, J., Meissner, M., Zenglein, J., Ives, J., & Conrad, B. (2016). Made in China 2025. *Mercator Institute for China Studies*, 2, 14–41.
- Xinhua. (2016). Xi Stresses CCP leadership of state-owned enterprises. Retrieved from [http://www.xinhuanet.com/english/2016-10/11/c\\_135746608.htm](http://www.xinhuanet.com/english/2016-10/11/c_135746608.htm)
- Xinhua. (2018). Speech delivered by Xi Jinping at the first session of the 13<sup>th</sup> NPC. Retrieved from <https://www.chinadailyhk.com/articles/184/187/127/1521628772832.html>
- Yan, X. (2001). The rise of China in Chinese eyes. *Journal of Contemporary China*, 10(26), 33–39.
- Yang, X., Jiang, Y., Kang R., & Ke, Y. (2009). A comparative analysis of the internationalization of Chinese and Japanese firms. *Asia Pacific Journal of Management*, 26(1), 141–162.
- Yang, R., Wang, Y., & Nie, H. (2013). The Political Promotion for Quasi-Government Officers: Evidence from Central State-owned Enterprises in China. *Management World*, (3), 23–33.
- Yao, S. (2009). China will learn from Chinalco's failed deal with Rio Tinto. *The Financial Times*. Retrieved from <http://www.ft.com/cms/s/o/6334ed04-538e-11de-fe08-00144/featdeo.html>.
- Yap, C.-W. (2015). Meet Frank: Cofco's Colorful Chairman. Retrieved from <https://blogs.wsj.com/chinarealtime/2015/03/31/meet-frank-cofcos-colorful-chairman/>
- Yasuhiro, Y., Peng, M. W., & Deeds, D. L. (2008). What drives new ventures to internationalize from emerging to developed economies? *Entrepreneurship Theory and Practice*, 32(1), 59–82.



- Yin, R. (2013). *Case study research: Design and methods*. Sage.
- Yu, H. (2014). The Ascendency of State-owned Enterprises in China: development, controversy and problems. *Journal of Contemporary China*, 23(85), 161–182.
- Yu, H. (2017). Motivation behind China's "One Belt, One Road" Initiatives and Establishment of the Asian Infrastructure Investment Bank. *Journal of Contemporary China*, (26), 353–368.
- Zhang, J., Zhou, C., & Ebbers, H. (2011). Completion of Chinese overseas acquisitions: Institutional perspectives and evidence. *International Business Review*, 20, 226–238.
- Zhang, D., Morse, S., & Kambhamptati, B. (2014). Evolving corporate social responsibility in China. *Sustainability*, 6, 7646–7665.
- Zhang, W. & Mauck, N. (2018). Government-affiliation, bilateral political relations and cross-border mergers: Evidence from China. *Pacific-Basin Finance Journal*, 51, 220–250.
- Zhao, S. (2005). China's Pragmatic Nationalism: Is It Manageable. *The Washington Quarterly*, 29(1), 131–144.
- Zhao, Y., & Han, M. (2016). China has returned to reform mode. *Bloomberg*. Retrieved from <https://www.bloomberg.com/news/articles/2016-08-25/china-puts-reform-back-on-table-as-monetary-easing-shows-limits>
- Zheng, N., Wei, Y., Zhang, Y., & Yang, J. (2016). In search of strategic assets through cross-border merger and acquisitions: Evidence from Chinese multinational enterprises in developed economies. *International Business Review*, 25, 177–186.
- Zhou, B., Guo, J., Hua, J., & Doukas, A. J. (2015). Does State Ownership Drive M&A Performance? Evidence from China. *European Financial Management*, 21(1), 79–105. <https://doi.org/10.1111/j.1468-036X.2012.00660.x>
- Zucker, L. G. (1977). The role of institutionalization in cultural persistence. *American Sociological Review*, 42(5), 726–743.
- Zuckerman, H. (1972). Interviewing an ultra-elite. *The Public Opinion Quarterly*, 36, 159–175.